



**ROLE OF LEAD BANKS IN FINANCING
SMALL SCALE INDUSTRIES -A CASE STUDY
OF ALIGARH DISTRICT**

ABSTRACT

THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

Doctor of Philosophy

IN

ECONOMICS

BY

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ABSTRACT

Banking institutions are considered as growth engines of the economy in developed as well as developing countries. Banks play a vital role in the economic development of our country by providing credit in all the sectors for accomplishing their assigned task.

The main purpose of the bank is to supply and expand adequate finance to agricultural sector as well as to the small industry and exports. Lead Bank Scheme was introduced in 1969. Over the years the scheme has helped in filling spatial gaps in the spread of branch network, orderly growth of institutional credit and brought about the much needed coordination among the various sectors in the economy.

The Lead Bank Scheme introduced by the Reserve Bank in December 1969 marks a significant step towards the implementation of the two fold objective of mobilisation of deposits on a massive scale throughout the country and coming up of lending to weaker sectors of the economy. In this regard a study group was constituted in October 1968 with the approval of the National Credit Council under the Chairmanship of Prof. Dr. Gadgil of creating an appropriate *organizational framework for the banking system for meeting*

the problems of credit gaps in the economy. The important recommendations of the Study Group published in October 1969 was that an area approach would be needed to be adopted by the commercial banks to identify and study local problems and create an integrated credit plan for the area. In August 1969, the Governor of the Reserve Bank also appointed a committee of bankers with F.K.F. Nariman as the Chairman, to form a coordinated programme for ensuring and for setting up of adequate banking facilities in the under banking districts of the country.

Small Scale Industries (SSIs) is an important segment of the priority sector. From the beginning credits were extended to the small sectors for the establishment and renovation of sick units.

The main thrust of Lead Bank Scheme is to enhance or to regulate the proportion of bank finance to priority sector Canara Bank as the Lead Bank of Aligarh District was established to promote the welfare of neglected areas as well for the people involved in small scale activities. Canara Bank opened its first branch in Aligarh in 1971, and within a short period of 18 years this bank has opened 19 branches in the district including 3 branches of Laxmi Commercial Bank

which were later amalgamated into Canara Bank in 1985. Canara is second after SBI. The Canara Bank opened its first branch in Aligarh on 24th September 1971 with the responsibility to work as Lead Bank of Aligarh District.

About 80% of the population of Aligarh district live in the rural area. Therefore, the credit plan formulated by the Canara Bank during the last five years were based on rural small-scale and cottage industries.

After 1992, Lead Bank introduced 26 new schemes to fill the gaps in credit delivery system. The Lead Bank is also operating under Single Window Scheme and Adoption of Cluster for Technology Upgradation and various Human Resource Development programmes in backward areas.

Credit Related Development Scheme (2004) based on Kapur Committee, recommendations specialized bank branches for SSIs lending have been set-up. By March, 2004 there were 417 such bank branches in the country but they have not achieved the desired objective. To check this problem Standing Advisory Committee of RBI in February 2004 was constituted to reduce the credit cost and the Finance Minister announced the creation of SSI fund of Rs. 200crs in January 2004

It is a known fact that the SSI plays an important role not only in the growth of global output and world trade but it also helps in employment generation and balanced regional development.

As per the Govt. of India's Tenth Five Year Plan (2002-07) achieving and sustaining high growth rate and employment will require sharp set-up in industrial and services growth. Small Scale Industrial sector forms an important constituent of unorganized manufacturing sector in India.

During 2000-01 to 2005-06 the small scale sector is estimated to have recorded from 261, 289 crores at current prices in 2000-01 to 471, 244 crores at current price in 2005-06. The number of units in small scale sector is estimated to have increased to 123.42 lakhs units at end March 2006. Employment in the sector estimated at the level of 294.1 lakh at end March 2006 as compared to 239.09 lakhs person employed in small scale sector in 2000-01. The exports were at Rs. 124417 crores during the year 2004-05. This shows that SSIs in India have emerged as a vibrant and dynamic component of the economy.

There are certain major constraints for the growth of SSIs for eg. finance and credit constraint, infrastructural constraints,

marketing constraint, technology constraints etc. The Central Govt. and State Govt. for the development of SSI sector in the country promoted a large number of financial institutions and organizations.

OBJECTIVES OF THE STUDY:

The main objective of my endeavour in this study is to identify and analyse the role of Lead Bank in financing SSIs in Aligarh District.

To assess the problems of SSIs in availing term loan from financial institution. To identify the different sources of financing SSI from other institutional sources. Also to examine the problems faced by SSI in getting their capital requirements from financial institutions. And to seek remedies and give pragmatic solutions having policy implications.

HYPOTHESIS:

Keeping in view the above mentioned objectives the hypothesis of the present study have been formed –

- a) Finance acts as a constraint in the growth of small scale industries in Aligarh district.

- b) Lead Bank of the District (Canara Bank) with its tremendous potential can be very effective in solving the problem of financing SSIs in Aligarh district.

METHODOLOGY:

For the purpose of the study, secondary data obtained from various sources was assessed and analysed. In Aligarh district, some small-scale industries as well as functionaries were also approached to get first hand information about their perception of the problem.

During the course of study, the data and literature available pertinent to the study was collected from various resources such as Journals, Annual Reports of Canara Bank, Newspapers etc.

SCOPE OF THE STUDY:

This study is an effort in highlighting the impact of Lead Banks in providing financial assistance to the Small Scale Industries. The evaluation of the impact of financing the SSIs in Aligarh District may provide insights to small scale investors into the planning process of investing in small scale sector and guidance to the government policy makers in

formulating future policies for industrial as well as financial development.

For others the study may prove to be of interest in knowing as to what extent finance can be proved useful for the development of small scale industries and what are the relative contributions of the various financial institutions in the development of the priority sector.

LIMITATIONS OF THE STUDY:

The study covers the main limitation that the entrepreneurs are not cooperative in disclosing their information.

Majority of the SSI units never maintain proper records. The general conclusions of the study would help in developing insights and understanding of the problems faced by small scale sector in the field of finance, the role of Lead Bank for the development of SSIs. The conclusion of the study may not be applied to all the districts because different districts and areas may have different problems and may need different solutions.

OUTLINE OF THE CHAPTERS:

The present research work has been divided into six

chapters.

In **Chapters 1**, a brief introduction on Lead Banks and the importance of the study, general significance in the context of financing Small Scale Industries. Moreover, it describes the role of Lead Banks in financing SSIs. Apart from this, objective, hypothesis, methodology and limitations of the study are taken into account.

Chapter 2 of the thesis relates to the brief review of literature on SSIs. It has also taken into account the present scenario with reference of financial and institutional support. This chapter has also dealt with few review committee reports on SSIs as well as on Lead Bank Scheme. Lastly this chapter has described the role of small scale industries in economic development.

Chapter 3 includes socio-economic profile of Aligarh district i.e., general background, geography and economic scenarios. It has also dealt with the scenario of industrial sector in Aligarh district and constraints, problems for future growth of small scale sector.

Chapter 4 of the thesis entitled with the Financial Aspect of Small scale sector in U.P. and Aligarh district, specific institutions, District, state support and state aided sources of finance. It has also taken into account the Role of Lead Bank (Canara bank) its relative importance as a source of financing and lastly this chapter also includes analysis of survey results undertaken in Aligarh District.

Chapter 5 entitled “Problems and Prospects of Financing by the Lead Bank. Moreover, problems specific to Aligarh District is taken into account.

Chapter 6 pertains to the conclusive part of the thesis. This chapter also outlines major inadequacies found in the financing of small scale sector with recommendations to remove these inadequacies.

CONCLUSIONS AND RECOMMENDATION:

Small Scale Industries play an important role in socio-economic transformation of the economy characterized by lack of capital, chronic unemployment, gross income inequality, huge quantity of unused and hidden wealth and glaring imbalances in the inter-regional industrial

development. Small Scale industries face a number of financial, technical, managerial, marketing and infrastructural problems.

As far as growth of SSI in Aligarh District is concerned it may be said that growth of SSIs is satisfactory, the number of registered units of SSIs are increasing. Employment is also being generated but the growth of SSI, in urban areas is more satisfactory than the growth of SSI in rural areas of the district.

In Aligarh District, various institutions such as Lead Bank (Canara Bank), SIDBI, U.P. Financial Corporation, NSIC, DIC and some commercial banks and cooperatives provide finance to SSIs and cottage industries. There is lack of proper coordination among financial institutions, promotional agencies and the institutions which provide land to entrepreneurs.

Lead Bank also coordinates the activities of agencies, which provide finance to small scale industries.

In northern zone, Lead Bank has opened its branch office at Aligarh (U.P.). Lead Bank offers various projects and schemes for the development of SSIs in Aligarh District.

The study makes the following recommendations having policy implications.

- 1) The Lead Bank, banks and financial institutions should provide both working capital and term loans without delay to SSIs.
- 2) In sanctioning of the quantum of credit facilities there is a tendency to cut down the limits on an adhoc basis on the plea that the units will require the full credit limit only when it goes into full production. The full working capital should therefore be sanctioned at the outset obviating the necessity for reference to sanctioning authority subsequently.
- 3) There must be accountability on the parts of District Industries Centre (DIC) and bank officials and the special tribunal should be established so that stringent actions can be taken against the erring officials. There should be greater coordination between Lead Bank and DIC.
- 4) Lead Bank should follow uniform policy of providing need-based finance to small units.
- 5) Besides Lead bank, all the institutions and

organizations, which are related with the working of SSIs, should setup a separate department of customer care for the benefit of entrepreneurs.

- 6) It is also suggested that the Govt. should ensure in coordination with Lead Bank that all the facilities related to finance, marketing etc. needed by SSIs should be made available at one place which saves time and delay on the part of entrepreneurs.
- 7) The procedure of taking loans from Lead Banks, banks and financial institutions should be simplified and more powers should be delegated to the branch manager so that unnecessary delays may be avoided.
- 8) The government should also promote the SSI units to develop Research and Development (R&D) facilities.
- 9) Lead Bank and other banks should go beyond the purview of lending and recovery. They should try to act as a philosopher and guide to small scale industries.
- 10) Lastly the Government should take full advantage of the establishment of Lead Bank's office at Aligarh and provide all the necessary assistance to it in carrying out its operations successfully in Aligarh.



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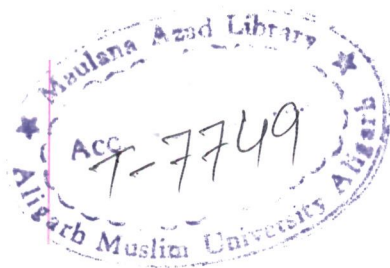
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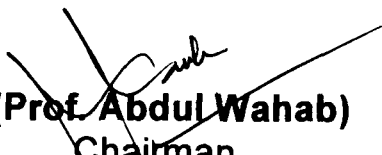
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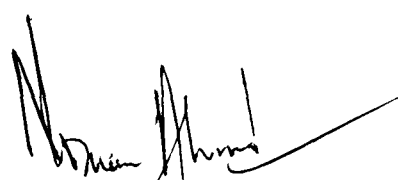
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CERTIFICATE

This is to certify that the Ph.D. thesis on “***The Role of Lead Banks in Financing Small-Scale Industries – A Case Study of Aligarh District***” submitted by *Ms. Sehar Rubab* under my supervision is her own original contribution and suitable for submission for the award of the degree of Ph.D. in Economics.


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(Sehar Rubab)

ABBREVIATIONS

SSI	:	Small Scale Industries
DIC	:	District Industries Centre
LBS	:	Lead Bank Scheme
SIDBI	:	Small Industries Development Bank of India
SIDO	:	Small Industries Development Organization
IDBI	:	Industrial Development Bank of India
SISIS	:	Small Industries Services Institutes.
RBI	:	Reserve Bank of India
PMRY	:	Prime Minister Rozgar Yojna
DC	:	District Centre
SSIB	:	Small Scale Industries Board
PSU	:	Public Sector Undertaking
PPDC	:	Product-cum-Process Development Centres.
NSIC	:	National Small Industries Corporation
SFCs	:	State Financial Corporations.
SIDCs	:	State Industrial Development Corporations.
SIICs	:	State Industrial Investment Corporations.
SSIDCs	:	State Small Industrial Development Corporations.
NIESBUD	:	National Institute for Entrepreneurship and Small Business Development.
NISIET	:	National Institute of Small Industry Extension and Training.

SME	:	Small and Medium Enterprises.
TCOs	:	Technical Consultancy Organization.
HUDCO	:	Housing and Urban Development Corporation Ltd.
EDII	:	Entrepreneurship Development Institute of India.
UPSSIC	:	U.P Small Scale Industries Development Corporation.
NBC	:	Net Bank Credit.
UPFC	:	U.P Financial Corporations.
NGOs	:	Non-Governmental Organizations.
RRBS	:	Regional Rural Banks.
SOC	:	Simplified Open Cash Credit
OCC	:	Open Cash Credit Scheme.
SHGs	:	Self Help Groups.
MFIs	:	Micro Finance Institutions.
MUN	:	Mahila Udyam Nidhi Scheme.
TUFS	:	Technology Upgradation Fund Scheme.
CLCSS	:	Credit Linked Capital Subsidy Scheme.
GTAB	:	Governing & Technical Advisory Board.
PC	:	Packing Credit
CPC	:	Clear Packing Credit.
PCFC	:	Pre-shipment Credit in Financing Currency
SSARIs	:	Small Scale Agro and Rural Industries.
SLBC	:	State Level Bankers Committee.
DCP	:	District Credit Plan.

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CHAPTER – 1

INTRODUCTION

1.1. Importance of the study and its general significance in the context of financing SSIs

Banking since its inception has been playing most crucial role in shaping and changing the modern economic scenario. It holds to be the core of the development processes in every field with which all advancement and opportunities are closely associated.

For the development of any activity, the supply of credit is one of the foremost component which plays a decisive role in accomplishing the task. The banks, have therefore a very important role to play in the development of various sectors of economy by providing necessary financial assistance for various sectors of economy by providing necessary financial assistance for various economic activities in the district.

The main purpose of the bank is to provide and expand adequate finance to agricultural sector as well as to the small industry and exports.

With the introduction of lead bank Scheme in 1969, commercial banks in India entered the new field of area planning. The lead banks are indebted with the responsibility of providing leadership in initiating and quickening the process of development of the districts allotted to them.

A “project approach” appears to be best suited for the credit operations of commercial banks in their lead districts. This approach is necessary for two reasons.

i) Scattered lending by commercial banks is difficult to supervise and is likely to produce any impact on the economy.

ii) The second and most important reason is that development calls for coordinated action on the part of various agencies. The Lead Bank Scheme introduced by the Reserve Bank in December 1969 marks a significant step towards the implementation of the two fold objective of mobilization of deposits on a massive scale throughout the country and coming up of lending to weaker sectors of the economy. In this regard a study group was constituted in October 1968 with the approval of the National Credit Council under the chairmanship of Prof. Dr. Gadgil of creating an appropriate organizational framework for the banking system for meeting the problems of credit gaps in the economy. The important recommendations of the study Group published in October 1969, was that an area approach would be needed to be adopted by the commercial banks to identify and study local problems and create an integrated credit plan for the area. The group under the area approach had to identify the lowest unit with the district which was considered to be the foremost administrative unit of the country.

In August 1969, the Governor of the Reserve Bank also appointed a committee of Bankers with Sri F.K.F. Nariman as the Chairman, to form a coordinated programme for ensuring the setting up of adequate banking facilities in the under-banking districts of the country.

The committee recommended that the banks should be

allotted specific districts where they would take the lead in surveying the capability of the banking development in extending branch banking and regulating credit facilities.

The Reserve Bank agreed to these principle and evolved the Lead Bank Scheme, under which districts were allotted to the State Bank Group, the 14 nationalised banks and three other banks in private sector.

1.2 Role of Lead Banks in financing Small Scale Industries:

The role of banks in providing finance to small industry is surprisingly limited.

The Lead Bank Scheme aims at the development of priority sector in India which includes credit to agriculture, small scale industries, service sectors, road and water transport operators, retail trade and small business, professional and self-employed persons, educational, consumption and housing loans to the weaker sections.

Credit to Small Scale Industries: SSIs is an important segment of the priority sector. From the beginning credits were extended to the small sectors for the establishment and renovation of sick units. The major recipients were: Gujarat 39.6%, Delhi 21.5%, State of Kerala, Andhra, Punjab and Uttar Pradesh together of 24.2%.

In December 1983, after five years the total amount outstanding under setting up of Industrial Estates rose to Rs. 62.9 crs, provided to 456 units. The distribution heavily skewed state-wise.

Gujarat received 43.4% followed by Delhi 20.6% and 13%

together by U.P and Chandigarh.

The number of units assisted, however, these four states/UTs combined share was 58%.

The main thrust of Lead Bank scheme is to enhance or to regulate the proportion of bank finance to priority sector. The objective of the scheme has been to coordinate the activities of banks and other developmental agencies to facilitate the flow of credit to the industrial sector. The Lead bank scheme has covered 575 districts as on March 31, 1999. During the year 1999-2000, 8 new districts have been formed as a result of bifurcation and the lead responsibility in respect of these districts allotted to public sector banks. The sectoral distribution set for the year 1998-1999 and 1999-2000 under the Annual Credit Plan are given in the Table-1.

As high as 96.7% of the target was achieved during the year 1998-99 sectorally, the achievement was 96.3% of the target in the case of agriculture and allied activities 88.3% in the case of SSIs, and 95.9% in the case of services sector during the year 1998-99.

Annual Credit Plan of Financial Institutions under Lead Bank Scheme

Table - 1

(Amount in Crores)

Sector		1998-99		1999-2000	
		Target	Achievement	Percentage Achievement	Target
a)	Agr. and allied activities	33,573.19	21,337.55	96.32	39,167.87

b)	Small Scale Inds.	11,629.67	11,431.19	98.29	12,772.81
c)	Services	10,670.59	10,232.80	95.90	12,945.29
	Total	55,873.45	54,001.54	96.65	64,885.97

Source: Report on Trend and progress of Banking in India, 1999-2000.

1.3. The Concept and Definition of Lead Bank Scheme. Their Specific Role in Regional Development and Background Areas.

The Gadgil Study Group of the National Credit Council, which came up with the task of identifying the territorial and functional credit gaps and of making recommendations for extension of sufficient institutional credit on reasonable terms to the devoid sectors and areas and the weaker sections of the community. The Group recommended the adoption of an “area approach” to formulate plans and programmes and location.

1.3.1 Adoption of an Area Approach:

The groups first recommendation therefore is for the adoption of an area approach to evolve plans and programmes for the development of the banking and credit structure.

The area approach is inherent in the cooperative system. As far as the commercial banks are concerned, the main idea which the group had, depending upon the area and location of operations, commercial banks should be assigned particular districts where they should act as pace-setters, providing integrated banking facilities, in this manner all the districts in the country should be covered. This should be the first step in making institutional finance available to priority

sectors and neglected area.

It is required to maintain an element of competition in the provision of banking services to the community.

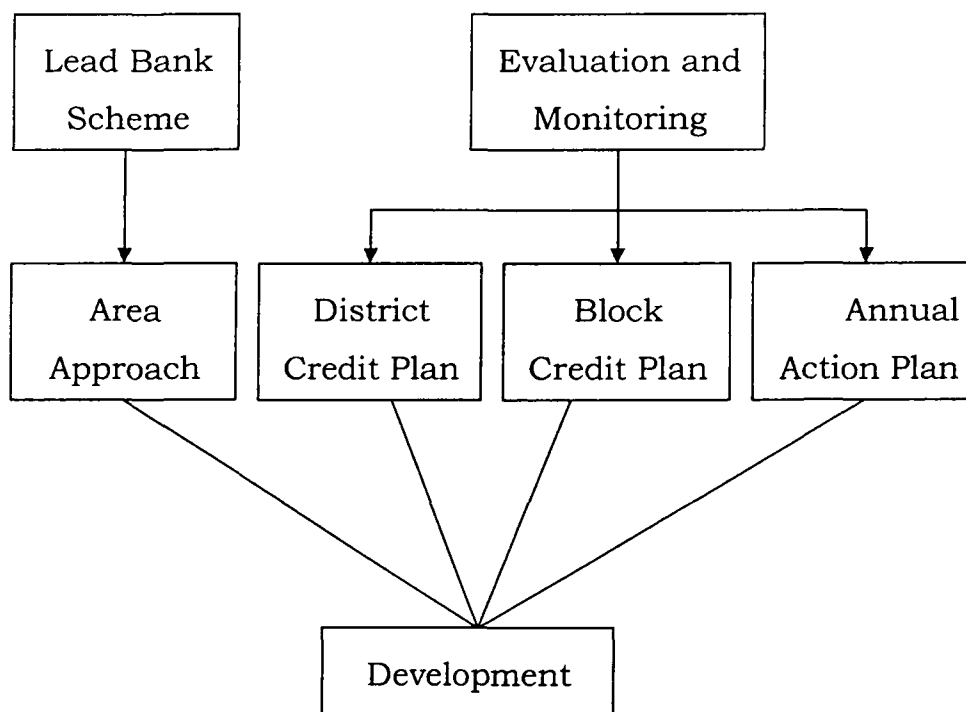


Fig.1

1.3.2. Institutional and Functional Coordination under Area Approach:

The area approach would help commercial banks to identify and study local problems and formulate an integrated credit plan for the supply of inputs and of processing, storage and marketing facilities and other services which may be needed, and providing for the participation, as may be necessary and feasible in the local conditions, of the Reserve bank of India, the State Bank, other commercial banks, co-operative banks and national refinancing and other development agencies.

Cooperatives have various problems in regard of management and resources.

The group was very glad to note that a committee of bankers appointed by the Reserve Bank of India for rationalising the expansion of the branches of nationalised commercial banks and had put stress on the basic principles of an area approach assigned to each nationalised bank a group of districts where it would work and function as the lead Bank.

1.3.3. Definition of Lead Bank Scheme:

The lead Bank Scheme is basically a coordinated approach whereby banks are allotted particular districts where they are expected to take the lead in assessing the scope for banking development particularly expansion of credit facilities. Based on the recommendations of Nariman committee the Reserve bank of India prepared the lead Bank Scheme.

This was an effort towards “area approach” to banking development as advocated by the Gadgil study Group. The Committee of Bankers known as Nariman Committee appointed by the Reserve bank of India in 1969 accepted the “area approach” and gave a practical shape to it under the title of “Lead Bank Scheme”

1.3.4. Area Approach – District to be the Basic Unit:

Looking into the scenario, the lowest unit under an area approach has to be recognized with the district. The district is the main administrative unit. Most of the statistical data are available at the district level, and not usually at lower levels. The total number of districts in the country is not too many, therefore making plans for each district should not

pose any problem.

Three Aspects of a District Plan:

Each district plan to be formulated must have three aspects:

- i) The establishment of branches or new units at particular places.
- ii) its formulation of relationships within a structure or as between structures and
- iii) The formulation of proper policies and procedures.

The first aspect of the plan would include the establishment of new branches by the nationalised or non-nationalised banks, by the district central cooperative banks only in few states. It is essential that this is accepted in all the states and also implemented. Apart from the opening of new branches, the plan will have to emphasize in the establishment of new banking or co-operative society units.

Nationalized banks can play a useful role in supplementing the activities of existing small banks and co-operatives and in the establishment of local units, wherever required. According to this policy, the small banks are amalgamated, as far as possible with other small units in the same area, the objective being the formation of viable regional banks where such merger is not possible, the Reserve bank permits, the merger of small banks with one of the bigger bank.

The Reserve Bank of India, after the nationalization of major Indian scheduled commercial banks, appointed a committee of Bankers under the chairmanship of Shri F.K.F. Nariman to make a coordinated programme for establishing adequate banking facilities in the under banked districts of the

country. The committee submitted its report to the Reserve bank on November 15, 1969, that banks should be allotted specific districts, where they should take the lead in serving the capability for banking development, in extending branch banking and expanding credit facilities.

The lead bank scheme was introduced by the standing committee of bankers in the meeting held in Reserve Bank of India on December 12, 1969 the Reserve Bank after considering the recommendations of the Nariman committee and also considering the comments of the custodians of various banks and also the recommendations of a study group of the National credit council, conducted by Prof. D.R. Gadgil made adjustment in the allocation of districts under the lead bank scheme which has given as accurate shape to the area approach to development

The Reserve Bank also kept the following considerations in mind while formulating the adjustments:

- (i) In between the resource base of banks and the allocation of responsibility there should be a broad correspondence.
- (ii) The factor of contiguity defined as a cluster of districts was kept in mind in allotting the lead bank districts.
- (iii) The existing regional orientation of banks was taken into account.
- (iv) The re-allocation provides that, there would be at least two or more lead banks.
- (v) The scheme has not been allotted to some Union

territories as well as Metropolitan centers.

Their Specific Role in regional development and background areas:

1. To survey the resources and potential for banking development in its district.
2. To survey the number of industrial and commercial units and other establishments and firms which do not have banking accounts or depend mainly on money lenders, and increasing their owned resources by creating surpluses financed by the banking system to the additional production.
3. Examining the facilities for the marketing of agriculture produce and industrial production, storage and warehousing space and linking of credit with marketing in the district.
4. To survey the facilities and other agricultural inputs for the repainting and servicing of equipment.
5. To recruit and train staff for offering advice to small borrowers and farmers and for the following and inspection of end use of loans
6. To assist other primary lending agencies.
7. And to maintain contacts with the government and quasi government agencies.

The other banks are excluded from opening branches, the lead bank is expected to act as a consortium leads and involve the cooperation of other banks in the district in mobilization of deposits, locating actual and potential credit

needs Banks were required to conduct quick and feasible surveys of districts allotted to them under the lead bank scheme in regard to identify unbanked growth centers for opening of branches on a phased programme basis.

After the completion of impressionist surveys in almost all the districts by 1975 the first phase of lead bank scheme was completed.

However, the after effects reorganization of district in 14 states and certain new districts had to be formed.

After the reorganization the total number of districts rose to 373. These new districts were also allotted to bank under the scheme. After the scheme was in operation for about five to six years, a concept had developed that the lead bank scheme had not been able to formulate as much of an impact as it should have.

1.4 Canara Bank- As lead bank of Aligarh District: Progress and performance of Canara Bank, Aligarh.

The commercial Banks except the Canara Bank were promoted by the business class to obtain funds required for the establishment of their business. However Canara Bank was established to promote the welfare of neglected areas as well as the people of our country. There was an eminent educationalist, lawyer and a social reformer Mr. A. Subba Rao Pai who got together a bank of public spirited people to start the Canara Hindu Permanent Fund Limited at Mangalore on 1st July, 1906 “ the main objective of the fund limited was to make loans available to the people like small and marginal farmers traders and artisans at minimum rate

of interest and to serve as a repository of people's savings.

This was renamed as "Canara Bank Limited in 1910.¹ after 1926 the first branch outside Mangalore was opened in Karkala. Other were opened in the talk towns in the south. Karnara District Branches were coast Cochin and Bombay. Many branches were opened in the rural areas neighboring states, district headquarter towns and other capital cities.

1.4.1 Progress of Canara Bank:

The banking institutions had to suffer a lot during the period of late fifties. The failure of two fairly large banks, one of them with a wide branch network had shaken the confidence of the public this created difficulties for several small banks in the country. At that time a process of consolidation of the banking structure had been initiated by the reserve bank of India for safeguarding the interest of the depositors of such banks. In this consolidation process of banking structure, Canara Bank was called upon to play its part. During the early sixties nine smaller banks came into its fold. Some of these banks were of long standing and enjoyed great influence and popularity in their own areas.

The takeover of Pandyan Bank limited, with 83 branches and nearly 800 staff members stood out as the biggest in the south during the decade. The method adopted by the Canara Bank for takeover was commanded even by the Reserve Bank of India.

The phase of rapid expansion started on the eve of its Golden Jubilee in 1956, the Canara Bank had a network of 51

¹ Varshneya, Y.K. A Ph.D. Thesis on "A comparative study of cooperative and nationalized financing Institutions of Aligarh, " 1985, Department of commerce AMU, Aligarh, p. 211.

branches. The number crossed 100 by 1961 by 1966, it marked the diamond jubilee of the banks, the network of its branch had increased to 240 and deposits and credit stood at Rs 114 crores and Rs 66 crores respectively the bank had emerged as the largest banks in the south.²

1.5 Performance and progress of Canara Bank Aligarh:

Canara Bank opened its first branch in Aligarh in 1971, but within a short period of 18 years this bank has opened 19 branches in the district including three branches of Laxmi commercial Bank which were amalgamated into Canara Bank in 1985. It has highest number of branches with the exception of the State Bank of India. Canara Bank is second after S.B.I. in business performance also. There are other nationalized banks, in the district which opened their branches in Aligarh much earlier than Canara Bank but even today their branch are very few as compared to the Canara Bank. In the business also the Canara Bank has proved its superiority over other except the S.B.I., the progress of Canara Bank may be summarized below.

Branch Expansion:

After the nationalization of 145 commercial banks in July, 1969 the pace of banking expansion was accelerated by the licensing policy of the R.B.I. in conformity with the objective of bank nationalization which favoured opening of commercial bank branches in rural area. ³

A large number of branches opened with the objective of

² Varshney, Y.K. Ph.D. thesis on a comparative study of cooperative and Nationalised Financing Institutions of Aligarh, 1985, p. 212-213.

³ Desai, S.S.N. Rural Banking in India, Hamalayan Publishing House 1983, p. 190.

meeting the financial need of the small and marginal farmers, the rural artisans, self employed and the other weaker sections in rural areas of the country. The Canara Bank opened its first branch in Aligarh on 24th September 1971 with the responsibility to work as lead bank of Aligarh district. After the nationalization of commercial banks the expansion of branches rural areas was quick and same was the situation in Aligarh district.

Canara Bank branch expansion may be seen from table No. 1.1

Table No. 1.1
Showing the year of opening of branches of Canara Bank
in Aligarh District

S. No.	Name of the branch	Date of opening
1.	Aligarh Main Branch	24.9.1971
2.	Vijaygarh Branch	21.1.1972
3.	Hathras Main branch	25.8.1972
4.	Gonda Branch	16.3.1973
5.	Kachora Branch	19.12.1974
6.	Akrabad Banch	27.312.1974
7.	Sikandra Rao Brach	05.11.1976

8.	Purdilnagar Branch	14.2. 1979
9.	Aligarh II Branch	27.1.1980
10.	Nayaganj Hathras II Branch	24.11.1980
11.	Dhamipur Branch	24.12.1980
12.	Bijouli Branch	14.8.1981
13.	Atrauli Branch	25.4.1981
14.	Hathras Mandi Branch	9.5.1984
15.	Kanchka Nagla (Hathras)	12.12.1984
16.	Nagla Tajana	August, 1985
*17.	Aligarh City	August 1985
*18.	Hathras	August 1985
*19.	Jalali	August 1985.

Source: Information collected from Divisional office, canara Bank, Aligarh

*Last three branches originally belonged to Laxmi Commercial Bank which were merged into Canara Bank in 1985.

Canara Bank was the 8th Commercial Bank of Aligarh District when it opened its first branch on September 24, 1971. Within a short period of four years, the Canara Bank opened its sixth branch in Aligarh District.

Out of these branches four branches were opened in rural

Areas. As such the average was more than one branch in a year. The emergency was imposed in the country in 1975 therefore no fresh license was issued to the bank for opening new branches. The seventh branch was opened on November 5, 1976 in Sikandra Rao. After that again Canara Bank could not get fresh license for opening new branches. In 1979, ultimately the bank opened its branch in Purdilnagar. Therefore the bank was successful in opening its branch in Purdilnagar.

These branches were opened at the places where the canara bank branch was already functioning namely, Aligarh second branch, Nayaganj Hathras and Dhanipur Branch.

The bank opened its twelfth branch in the year 1981 in Bijonli Block. The Bijonli was the only unbanked block of the district. Now it has been found that there is no unbanked areas in Aligarh District.

The responsibility of opening new branch was taken by Aligarh Gramin Bank sponsored by Canara Bank. But in the year 1984 the bank got success in obtaining three licenses and the branches were opened in Atrauli. Mandi Samiti, Hathras and Kauchka Nagla, Hathras. Out of these branches two were opened in Hathras Block. The last branch was opened in Nagla Tajana in August 1985. In the year 1985, three branches of Laxmi Comemrcial Bank were merged into Canara Bank which were working successfully in Aligarh City, Hathras and Jalali. The Aligarh Gramin Bank was sponsored by the Canara Bank in 1982. At present there are 89 branches of Aligarh Gramin Bank functioning in all the 17 blocks of the District.

1.6 Role of Canara Bank and other Nationalised Banks in Financing Rural Industries of Aligarh District

The traditional industries are generally located in rural and Semi-urban area, which involves low levels of investment in machinery and provide invariably part time employment. They have been categorized as village and cottage industries under 6 heads. The annual survey of industries shows that not all these groups are equally important in terms of production and employment. The planning commission has identified six industries which absorb about 69% of those employed in cottage and village industries i.e., food products, beverages, tobacco and tobacco products, cotton textile, products including wearing apparel, wood and wood products, furniture and fixtures, leather and fur products.⁴

1.6.1. Benefits of Rural Industries:

The rural industries provides the following benefits.

- i) Rural industries provide additional employment opportunities, raise production and improve economic conditions in rural areas.
- ii) Rural industries are labour intensive. They provide additional employment to men and women ensure decentralization of economic power and elimination of monopolistic exploitation.
- iii) Decentralised production through a network of well-knit rural industries obviates the necessity of complicated managerial and competitive marketing techniques and reduces the cost of overheads.

⁴ Desai, Vasant, Rural Development, vol. VI, Himalayan Publishing House, 1988, p.196.

- iv) Rural industrialization provides lot of scope for the promotion of the artistic achievement in rural area.⁵
- v) After the nationalisation of the 14 major commercial banks and rapid expansion of banking facilities in rural areas since then banking has merged as effective instrument of rural reconstruction. It reconstructs rural economy by modernizing agriculture and developing agro based and other rural industries utilizing local new materials.⁶

About 80% of the population of Aligarh District live in the rural area. Therefore, the credit plan formulated by the Canara Bank during the last five years were based on rural small-scale and cottage industries. Except a few city areas like Aligarh, Hathras where most of the large scale industries are there, infact most of the areas of Aligarh District are predominantly covered by rural and cottage industries, like weaving, Leather works, metal works, coin works, bamboo works, lock smith, glass heads etc. These activities are the traditional activities of some of the families in the rural area. To encourage these rural artisans, sizeable targets were fixed in the last five years to cover all types of beneficiaries. Till the end of 1986-87 the number of rural small scale and cottage industries were 1398 and the number of workers employed in these industries were 12,292. The handloom industries in the district were 9,615. Hathras city is well equipped with the handloom industry. 3,555 handlooms were in Hathras city and remaining 6,060 were in all the other parts of the district. The total production of handloom industries for the

⁵ Desai, Vasant, op. cit., p. 197.

⁶ Desai, S.S.M, Op.cit., p. 338.

year 1986-87 was 320 lakh metres of cloth. The credit has been provided for all round development of small-scale and cottage industries in the rural area and the progress of the credit supply can be seen from table No.1.2

Table No.1.2

Target and Achievements of Finance provided by Canara Bank and other Nationalised Banks for Small-Scale and Cottage industries in Aligarh District from 1984 – 1988.

(Rs. in thousands)

S.No	Name of the Bank	1984		1985		1986		1987		1988	
		Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3		4		5		6		7	
1.	Canara Bank	6632	12809	12200	25059	12900	6298	19026	13016	13811	4968
2.	Other Nationalised Banks										
1.	Aligarh Gramin Bank	6515	707	5800	1444	1550	701	3250	635	6135	1194
2.	SBI	9331	10906	17850	25218	21060	67400	20333	7991	17208	3541
3.	Central Bank of India	4331	7671	7900	9421	8500	5527	9070	3369	4074	15386
4.	Punjab National Bank	2228	1639	3250	6103	3780	5976	4879	3995	3842	4980
5.	Bank of India	513	139	400	300	525	85	636	543	1244	488
6.	Bank of Baroda	1500	550	1000	1600	1150	1445	721	327	411	2405
7.	Dena Bank	672	497	800	75	900	191	1209	289	894	257
8.	U.C.O Bank	861	---	650	82	650	720	1046	144	1216	100
9.	Union Bank of India	1505	688	400	709	900	525	990	810	1154	423
10	Syndicate Bank	1008	853	500	535	800	2197	964	353	1325	173

S.No	Name of the Bank	1984		1985		1986		1987		1988	
		Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3		4		5		6		7	
11.	Indian Overseas Bank	676	43	600	687	600	986	485	3019	449	218
12.	Indian Bank	1100	2037	900	1213	1550	310	1455	1835	1237	1139
13.	Allahabad Bank	3285	1252	4450	3809	4350	703	4649	1494	2968	1233
14.	Vijay Bank	480	363	400	740	750	2207	1700	2014	1041	971
15.	New Bank of India	489	25	800	770	700	---	770	25	809	251
16.	Punjab and Sindh Bank	240	5	250	---	250	---	689	353	750	32
17.	Oriental Bank of Commerce	230	3500	1800	4559	1870	866	1567	259	1344	1223
3.	Non Nationalised Banks										
1.	Hindustan Commercial Bank	155	---	500	350	---	---	---	---	---	---
2.	Banaras State Bank	240	---	300	50	320	---	485	---	574	---
3.	Barielly Corp Bank	245	656	600	918	850	---	355	130	427	---
4.	Laxmi Commercial Bank	677	---	---	---	---	---	---	---	---	---
5.	District Corporate Bank	944	1171	1150	113	1150	---	4219	---	2550	---
	Total	43857	45511	62500	83755	65485	96137	78498	40601	174820	118353
	Achievement in %	103		134		146		52		67.69	

Table No. 1.2 shows that all the commercial banks and cooperative banks supply credit for the development of rural and cottage industries in the district.

In the year 1984 the total target fixed was Rs. 438.57 lakhs and achievement was Rs. 455.11 lakhs which is 103%. It reveals that the progress for the year 1984 is satisfactory.

The credit supply made by the Canara Bank was Rs. 128.09 lakhs against the target of Rs.66.32 lakhs which is 193.13%, i.e. 93.13% higher than the required target.

The Aligarh Gramin Bank sponsored by Canara Bank, supplied credit of Rs. 7.07 lakhs against the target of Rs.65.15 lakhs which is only 10.85%, about 90% lower than the required target.

The target for credit supply for the year 1985 was Rs. 625.00 lakhs and the achievement was Rs. 837.55 lakhs which is 134%, 34% higher than the required target.

During the same period credit supply made by the Canara Bank was Rs. 250.59 lakhs against the target of Rs. 122.00 lakhs which is 205.40%, 105.40% higher than the required target.

In the year 1986 the achievement was Rs. 961.37 lakhs against the target of Rs. 654.85 lakhs which is 146% i.e 46% higher than the required target. The target for supply of credit by the Canara Bank was Rs. 129.00 Lakhs and actual supply was Rs.62.98 lakhs which is 48.82% lower than the required target. The progress of Canara Bank in supply of credit for rural development in 1986 has not been satisfactory.

In the year 1987, the target of credit supply fixed was Rs. 748.98 lakhs and the achievement was Rs. 406.01 lakhs which is only 52%, 48% lower than the required target. The achievement made by the Canara Bank was Rs. 130.16 lakhs against the target 190.26 lakhs which is 68.41%. Thus, the total progress and the performance of Canara Bank has not been satisfactory. The target for the year 1988 was Rs. 1748.20 lakhs and achievement was Rs. 1183.53 lakhs which is 65.69%, lower than the required target by 32.31%. The target for the Canara Bank was Rs. 138.11 lakhs and the achievement was Rs. 49.68 lakhs which is 35.97%, lower than the required target by 64.0%. The target for Aligarh Gramin Bank was Rs. 61.35 lakhs and the achievement was Rs. 11.94 lakhs which is 19.46%.

The performance of Canara Bank and Aligarh Gramin Bank has been very poor during the period of 1988. One can say that the credit provided to the rural SSIs by the banks is quite satisfactory.

The credit plan for each successive year is increasing according to its demand. It shows that all the loans of rural areas and weaker sections of the society are being encouraged by providing sufficient credit for the development of their industries. Thus it can be said that the banks are strengthening the economy of Aligarh District.

Under the lead bank scheme formulated by the Reserve Bank of India, Syndicate Bank has been allotted sixteen districts and one Union Territory for providing adequate banking facilities, after carrying out an extensive economic survey in each of these lead districts. Meerut is one of the three

districts allocated to the Bank in Uttar Pradesh. The National Credit Council constituted a study group towards the end of October, 1968, to go into the question of an appropriate organizational framework for the implementation of social objectives of commercial Banks.

The “Lead Bank Scheme” is required to assume the major role in the development of banking in the concerned district though it is not expected to have a monopoly of banking business in the district. The Lead Bank is to act as the consortium leader. After identifying under banked areas it should invoke the co-operation of the banks operating in the district to provide adequate banking services in the area.

1.7 Credit to Small Industries:

Small industries is an important segment of the priority sector. Since the very beginning credits were extended to the small sectors for the establishment and maintenance of Industrial units and renovation of sick units. Extension of banking facilities was an important part of the infrastructure needed for the development of an area in combination with other infrastructural facilities, such as transport, communications, storage, processing and marketing facilities etc. But then when such facilities are not adequately provided for in a district, the lead Bank can have only limited success.

1.8 Present Position of the scheme:

By 1973-74 surveys had been completed in 380 districts to be covered under the Lead Bank Schemes.

The surveys covered 90 percent of the districts in the under-

developed states of Assam, Bihar, West Bengal, Orissa M.P. and U.P. As further step, some banks had carried out in depth studies of limited areas within the district and on the basis of such studies, some development schemes have already been drawn up for specific action. The lead Banks had also constituted district level consultative committees comprising representative of scheduled commercial banks and other financial institutions operating in the district, state government officials, etc, to help in identifying bankable schemes, in evolving methods for exchanging information about borrowers, lending to priority sector etc.

The Reserve Bank of India constituted two study groups in August 1975 to review the working of the Lead Bank Scheme in Maharashtra and Gujarat and to formulate appropriate guidelines for its effective working. The study groups recommended that the lead banks should prepare technologically feasible and economically viable schemes in the priority sectors which could be completed in 3 to 5 years and that such schemes should be collectively implemented by all financial institutions. The RBI setup a High Power Committee (HPC) in March 1976 to watch the overall progress of the Lead Bank Scheme and to issue guidelines for the effective functioning of the scheme.

On the basis of the directives by the HPC, the lead Banks have to formulate district credit plans (DCPs) for three year periods at a time. Besides, the Lead Banks have been asked to prepare annual action plans (AAPs) in December each year so that these plans would synchronise more or less with the Five Year Plans of the Government. The district credit plan is

to be of a comprehensive nature and is to indicate credit targets for institutional credit agencies in the district on a block-wise, sector-wise, scheme-wise and bank-wise basis.

In October 1980, the integrated rural development programme (IRDP) was extended to all the blocks in the country. Lead Banks were advised to prepare banking plans, to allocate responsibility of financing the identified beneficiaries for different activities among the participating banks and integrated the same with AAPs. The Lead Banks have also been given the responsibility to obtain complete details of village-wise distribution of physical programmes, subsidy, credit needs etc. from the district rural development agencies, incorporate the same in the AAPs and ensure that the specified branches of the participating banks accept the responsibility for processing and sanctioning applications of identified beneficiaries from the villages allotted to them. Programmes incorporated in the DCPs have not always been successfully implemented either because they were not tested for their feasibility or for want of adequate infra-structured support and forward and backward linkages. A working Group is now involved (since November 1981) in reviewing the working of the Lead Banks Scheme in regard to the preparation and implementation of DCPs and to review the role of the Lead Banks so as to make them more effective.

The HPC has also recommended organization of workshops for the officials of State Governments and commercial banks in order to help them have better understanding and appreciation of the objectives and implementation of the Lead Bank Scheme District level and State level workshops have

been organised by the National Institute of Bank Management and the convener banks. State Governments and lead banks jointly formulate steps for the implementation of the decisions arrived at the State levels.

Other important steps in promoting lead bank schemes are as follows

- a) Lead banks have been asked to appoint lead bank staff in each of their lead districts for the preparation and implementation of a district credit plan.
- b) To ensure effective implementation of the lead bank scheme, it was decided that the officers of the RBI would monitor the preparation and implementation of the districts credit plans more closely. Quarterly and annual returns were to be submitted by the lead banks to the Department of Banking Operations and Development of the RBI. Quarterly return is for monitoring the implementation of the district credit plan and the annual return is for monitoring the performance in the recovery of advances.
- c) The standing Committee of the District Consultative Committee is to meet regularly once a month to exercise supervision of the scheme and implement credit plans.
- d) The Head office of each commercial bank has to evolve the procedure to oversee its branches in the districts and check the fulfillment of the

allocated shares.

The government and the RBI have attached the greatest significance to the lead Bank scheme both for mobilizing resources through the banking system and for financing of development projects in rural and urban areas in each district.

1.9 GUIDELINES OF THE LEAD BANK RELATING TO MINORITY COMMUNITIES

1. The Lead Bank in each of the minority concentration districts should have an officer who shall exclusively look after the problems regarding the credit flow to minority communities. It shall be its responsibility to publicise among the minority communities various programmes of bank credit and also to prepare suitable schemes for their benefit in collaboration with branch managers.
2. The designated officer should exclusively look after aspects relating to credit assistance to minority communities in the concerned districts. The designated officer may be attached to the Lead Bank set up at the district level. He would thus, be able to receive necessary guidance from Lead Bank Officer, who will be senior enough and have adequate experience for liaising effectively with the other credit institutions and Government agencies and will also be working in close collaboration with the branch managers of other banks in the district. The designated officer will also arrange ground meetings for their guidance for formulation of schemes suitable for the members of the minority

communities. It will be necessary for the banks concerned to ensure that the role assigned to the designated officers is effectively fulfilled.

3. The Convenor Banks of the District Consultative Committee (DCCs) and the State Level Bankers' Committees (SLBCs) should ensure that steps taken to facilitate the flow of credit to the minority communities and the progress made in this regard are reviewed regularly at their meetings.
4. The Convenor Banks of DLRC/SLRM/ SLBCs may invite Chairman/Managing Directors of State Minority Commissions/Boards or the State Minorities Financial Corporations or their representative to attend the meetings of District Level Review Committee (DLRC), State Level Review Meeting (SLRM) and State Level Bankers Committee (SLBC).
5. The Lead Banks in the identified districts having concentration of minority, communities may involve the State Minority Commission/Finance Corporation in the extension work including creating awareness, identification of beneficiaries, preparation of viable projects, provision of backward and forward linkages such as supply of inputs/marketing, recovery, etc.
6. The Lead Banks in the identified districts may collaborate with DDMs of NABARD/NGOs Voluntary Organisations in reaching the poor through Self-Help Groups (SHGs).
7. The progress made in regard to the flow of credit to the

minority communities should be reviewed regularly at the meetings of the District Consultative Committees (DCCs) and the State Level Bankers Committees (SLBCs).

8. The Lead Banks in the identified districts should furnish the relevant extracts of the agenda notes and the minutes of the meetings of the DCCs and of the respective SLBCs to the Union Ministry of Finance and to the Ministry of Welfare on a quarterly basis for their use.
9. The Lead Banks functioning in the identified districts should organize entrepreneur development programmes so that the members of the minority communities in these areas are enabled to derive the benefit of various programmes being financed by the banks. Depending upon the major vocational and type of activity undertaken by large sections of the people in the districts, suitable programme may be organized in co-operation with State Govts., Industries Dept., District Industries Centre, SIDBI, State Technical Consultancy Organisation, Khadi and Village Industries Commission and other voluntary organisations which are fully equipped to impart such training and orientation. The duration of the programme, the course content, the faculty support to be selected should be decided by each lead bank taking into account the prevailing conditions, need and existing skills , well as aptitude of the people in district.
10. The Lead Banks in the identified districts may sensitise

and motivate the staff posted to identified districts through proper training to assist minority communities under various credit schemes.

11. The Lead Banks may organize sensitization workshops for bank officials regarding micro credit lending to SHGs with the help of DDMs of NABARD.
12. The Lead Banks in the identified districts may create awareness among minority communities regarding credit facilities available from banks through appropriate measures which may include publicity through (i) print media i.e., distribution of pamphlets in local languages, advertisements/ articles in newspapers, etc. (ii) TV channels DD/local channels, (Hi) participation/ setting up of stalls in the Melas/ fairs organized during the religious/festive| occasions by these communities.

1.9.1 List of Minority Concentration Districts

States	Districts	Name of the Lead Bank
Uttar Pradesh	* Rampur	* Bank of Baroda
	* Bijnor	* Punjab National Bank
	* Moradabad	* Syndicate Bank
	* Saharanpur	* Punjab National Bank

States	Districts	Name of the Lead Bank
	* Muzatfarnagar	* Punjab National Bank
	* Meerut	* Syndicate Bank
	* Bahraich	* Allahabad Bank
	* Gonda	* Allahabad Bank
	* Ghaziabad	* Syndicate Bank
	* Pilibhit	* Bank of Baroda
	* Deoria	* Central Bank of India
	* Barabanki	* Bank of India
	* Basti	* State Bank of India
West Bengal	* Murshidabad	* United Bank of India
	* Malda	* United Bank of India
	* West Dinajpur	* United Bank of India
	* Birbhum	* UCO Bank
	* Nadia	* United Bank of India
	* 24-Parganas (N)	* Allahabad Bank
	* 24-Parganas (S)	* United Bank of India
	* Cooch Bihar	* Central Bank of India

States	Districts	Name of the Lead Bank
	* Howrah	* UCO Bank
Kerala	* Malappuram	* Canara Bank
	* Kozhikode	* Canara Bank
	* Cannanore	* Syndicate Bank
	* Palghat	* Canara Bank
	* Wynad	* Canara Bank
Bihar	* Purnea	* Central Bank of India
	* Katihar	* State Bank of India
	* Darbhanga	* Central Bank of India
Karnataka	* Bidar	* State Bank of India
	* Gulbarga	* State Bank of India
	* Bijapur	* Syndicate Bank
Maharashtra	* Greater Mumbai	* Bank of Maharashtra
	* Aurangabad	* Bank of Maharashtra
Andhra Pradesh	* Hyderabad	* State Bank of Hyderabad
	* Kurnool	* Syndicate Bank
Haryana	* Gurgaon	* Syndicate Bank

States	Districts	Name of the Lead Bank
Madhya Pradesh	* Bhopal	* Bank of India
Rajasthan	* Jaisalmer	* State Bank of Bikaner & Jaipur
Gujarat	* Kutch	* Dena Bank

1.10 ROLE OF THE LEAD BANK IN NON-LEAD DISTRICTS

In non-lead districts also, the Bank has an important role to play in the Lead Bank Scheme. In order to effectively supervise the implementation of the Lead Bank Scheme in each district, a District Co-ordinator has been appointed. District Co-ordinator is normally the senior most officer in the district headquarters, be he the branch manager, Divisional Manager (ELB), Divisional Manager (O). He is the link between the Lead Bank and all branches of our Bank for which he is the co-ordinator. The District Co-ordinator is expected to accord importance to lead bank work. He should not treat it as a residual work entrusted to him. As District Coordinator, among others, he has to attend to:

- a) Collecting the data from all branches in the district and submitting to the Lead District Manager.
- b) Extending effective and complete support to the Lead District Manager in implementing all programmes under the Lead Bank Scheme.

- c) Attending all Committee meetings of which he is a member and report to the controlling office.
- d) Taking up district level problems in implementation of priority sector schemes/Government sponsored Schemes with the Lead Bank.

The District Co-ordinator should have a complete understanding of the DCP, AAP prepared by the Lead Bank for effective monitoring. Wherever Responsible Officer Heads are not acting as District Co-ordinators in their area of operation, they should attend invariably meetings convened by the Lead Bank for the purpose of deciding share allocation under AAP (refer Annexure XI). Other meetings can be attended by District Co-ordinator or any other responsible officer.

1.11 DUTIES AND RESPONSIBILITIES OF THE VARIOUS FUNCTIONARIES OFFICES UNDER THE LEAD BANK SYSTEM

HEAD OFFICE

Lead Bank and Govt. Sponsored Schemes Cell of the Priority Credit Section, Priority Credit Wing, Head Office oversees the functioning of the Lead Bank Scheme in the Bank. The important areas which are to be attended by the Cell are listed here below:

1. State Level Bankers Committee Meetings (SLBC) in Kerala State where the Bank is the Convenor of the SLBC

- a) To ensure timely conduct of SLBC/ SLRM meetings.
- b) To prepare the background papers based on the agenda

for participation by the Chairman & Managing Director or Executive Director in the SLBC/ SLRM meetings.

- c) To guide and monitor the performance of the SLBC Cell of Trivandrum Circle in matters pertaining to SLBC.
- d) To take up the matter with the RBI, Govt. of India, Head Offices of the Banks/Financial Institutions with reference to SLBC matters, if any.
- e) To get the feed back from the designated executives (Annexure IV, V) and branches (Annexure VI) along with the agenda/background papers with reference to SLBC meetings in the states where we have more than 5 branches.

II. State Level Bankers Committee" Meetings (SLBC) in States where the Bank is not the Convenor of the SLBC

- a) To decide on the level of participation at SLBC meetings in different State
- b) To monitor participation of the designated executives in the SLE meetings.
- c) To get the feed back from the designated executives (Annexure V) and branches (Annexure VI), the agenda/background papers along with minutes and to place the information note to Executive Director / Chairman & Managing Director.
- d) Monitor implementation of decision of SLBC by the Circle.
- e) Apprise the Top Management of items discussed.

III. Lead Districts

- a) Lay down policy with regard to implementation of Lead Bank Schemes.
- b) Oversee the functioning of the Circle with regard to implementation of Lead | Bank Schemes.
- c) To ensure launching of the district credit! plans or Annual Action Plans before] the due date (31st March).
- d) To ensure that the LDMs organize Entrepreneurial Development Programmes (EDPs) for minorities in minority identified districts.
- e) To ensure that the LDMs invite and ensure participation of Members of the Parliament and the elected representatives in the DLRC meetings.
- f) To ensure that the Bank is represented at executive level by the designated executives in all the district level meetings in our Lead Districts.

IV. Non-Lead Districts

- a) To maintain and update the list of District Co-ordinators.
- b) To issue guidelines on designation of District Co-ordinators, if any.

V. Other Matters

- a) To liaise with RBI/NABARD/Govt. of India in Lead Bank matters.
- b) To issue guidelines to COs/ ROs/ LDMs and branches for timely completion of the process of Annual Action Plan preparation and to follow up in the matter.

- c) To encourage LDMs to act as focal point of development in the District.
- d) To ensure that the Lead Bank Offices are provided adequate infrastructure support (including Personnel Computers, Dot Matrix printers, telephones at office and residence, jeep, etc) and adequate supporting staff.
- e) To identify and recommend newly posted LDMs for training at BIRD/ NABARD.
- f) Conduct of Annual Conference of LDMs.
- g) Apprise the ED / C&MD / Board of Directors on the performance in implementation of DCP on a quarterly basis.

CIRCLE OFFICE

AF & PS Sections or LB & PSM Sections are to oversee the functioning of the Lead Bank Scheme in the Circle. The important areas which are to be monitored by the Circle are listed here below :

I. State Level Bankers Committee Meetings (SLBC) in States where the Bank is the Convenor of the SLBC.

- a) To organise the SLBC Meeting & all other meetings like Steering Committee of SLBC, SLRM, etc.
- b) To ensure participation by the Designated Executives in the SLBC Meeting & other SLBC forums.
- c) To provide inputs for preparation of background papers for participation by the Chairman & Managing Director or Executive Director in the SLBC.
- d) To prepare agenda and background papers for SLBC

and other meetings after getting feed back from other Banks.

- e) To prepare the background papers based on the agenda for executive level participation in the various meetings.
- f) To prepare the minutes of the SLBC meetings and to initiate appropriate follow-up action for compliance of the action points pertaining to the Bank and to apprise the Circle Head in the matter on an ongoing basis.
- g) To circulate the' minutes of the SLI meetings to all Banks.
- h) To ensure 100% submission of the LBS statements under Service and Monitoring and Information System by all the bank branches.

II. State Level Bankers Committee Meetings (SLBC) in States where the Bank is not the Convenor of the SLBC

- a) To participate in the SLBC Meeting & other SLBC forums in case of the States/Union Territories wherever the Circle Office is located in the State/s Head Quarters.
- b) To ensure participation by the Designated Regional Executives in SLBC Meeting & other SLBC forums in case of the States/Union Territories wherever the Circle Office is not located in the State/s Head Quarters.
- c) Designation of executives to participate in the SLBC meetings in States where the number of branches is more than 5.

- d) Designation of branches to participate in the SLBC meetings in States where the number of branches is less than 5.
- e) To prepare the background papers based on the agenda for executive level participation in the various meetings convened by SLBC convenor.
- f) To get the feed back from the designated executives (Annexure V) and branches (Annexure VII) along with the agenda/background papers.
- g) To follow up for the minutes of the SLBC meetings and to initiate appropriate follow-up action for compliance of the action points pertaining to the Bank and to apprise the Circle Head in the matter on an ongoing basis.
- h) To participate in State Level Task Force Committee meetings convened by NABARD to review the performance of Banks under SAMIS (Service And Monitoring and Information System) To apprise the Circle Head about performance of the Bank under SAMIS and to initiate action wherever necessary.
- i) To ensure 100% submission of LBS statements under SAMIS by the branches.
- j) To submit data to the SLBC convene in time.
- k) To submit topics for agenda to SL Convenor for placing in the SLBC meetings based on the feed back received from the branches/offices/our lead districts'.
- l) To submit report to PC Section, Head Office, (in Annexure IV) wherever the Circle executives are designated to participate in the SLBC meetings.

III. Role of Circle Offices in respect of Lead Districts

- a) Identification of suitable officers to be posted as the Lead District Manager with the support of Staff Section (O).
- b) Review of the performance of the Lead District Managers on a quarterly basis and to guide him on an ongoing basis to discharge his duties effectively.
- c) To review the LDMs diary on a monthly basis and to place the same before the Circle Head at quarterly rests.
- d) To ensure launching of the district credit/ plans or Annual Action Plans before the due date (31" March).
- e) To ensure that the LDMs conduct the DCC and DLRC meetings in time and in a proper manner.
- f) To ensure that decision of the meetings are followed up and implemented.
- g) To ensure that the LDMs organize Entrepreneurial Development Programmes (EDPs) for minorities in minority identified districts.
- h) To ensure that the LDMs conduct Block Level Consultative Committee (BLCC) meetings every quarter.
- i) To ensure that the LDMs invite and ensure participation of Members of the Parliament and the elected representatives in the DLCC meetings.
- j) To ensure that the Bank is represented at Executive level by the designated executives in all the District level meetings in our Lead Districts.

- k) To ensure LDMs function in close coordination with DDMs of NABARD for overall development of the district.
- l) To issue guidelines to LDMs/ROs and branches for timely completion of the process of Annual Action Plan preparation and to follow up in the matter.
- m) To ensure a healthy credit growth rate of 15-25% every year in the Annual Action Plan of our Lead Districts.
- n) To ensure that the LDMs organize Lok Adalats in all our Lead Districts.
- o) To ensure that the LDMs organize all the mandatory meetings/programmes in time.
- p) To ensure that the Lead Bank Offices are provided adequate infrastructural support (including Personal Computers, Dot Matrix printers, telephones at office and residence, jeep, etc) and adequate supporting staff.
- q) To identify and recommend (to PC Section, Head Office) newly posted LDMs for training at BIRD/NABARD.
- r) Taking up cases of under performing banks or banks not participating in DCC/DLRC meetings with RBI / Controlling Offices / SLBC.
- s) Guide and Monitor the performance of the Lead Banks on a regular basis and follow up receipt of the Monthly Diary of the LDMs.
- t) The performance of the Lead Banks is to be reviewed on a quarterly basis and a note is to be placed to the Circle Head. A copy of the note, alongwith the views of

the Circle, is to be sent to PC Section, HO, Bangalore before 10th of the succeeding month.

IV. Role of Circle Offices Non-Lead Districts in Non Lead Districts

- a) To designate the District Co-ordinators in Non-Lead Districts on an ongoing basis.
- b) Monitor District Co-ordinator's participation in all the District level meetings.
- c) To maintain and update the list of District Co-ordinators and send it to Lead Bank and Govt. Sponsored Scheme Cell, Priority Credit Section, HO every year as in June.
- d) To ensure receipt of the feedback from the District Co-ordinators (in the format enclosed as annexure VII) along with the agenda / background papers.
- e) To review the proceedings of the DCC / DLRC meetings in all the Districts and apprise the Circle Head in the matter.
- f) To review and guide the RO / Branches for improving the performance wherever required based on the DCC / DLRC / Standing Committee Proceedings.

V. Other matters

- a) To issue guidelines to LDMs/ROs and branches for timely completion of the process of Annual Action Plan preparation and to follow up in the matter.
- b) To ensure a healthy credit growth rate of 15-25% every year in the Annual Action Plan of the

branches/RQs/CQ.

- c) To advise branches/offices to actively participate in Lok Adalats organized in the districts.
- d) To ensure that the LDMs organize all the mandatory meetings/programmes in time.
- e) To ensure that the Lead Bank Offices are provided adequate infrastructural support (including Personal Computers, Dot Matrix printers, telephones at office and residence, jeep, etc) and adequate supporting staff.

REGIONAL OFFICE

Agriculture Finance Sections or the designated Section is to oversee the functioning of the Lead Bank Scheme in the Region. The important areas which are to be monitored by the Section are listed here below:

I. State Level Bankers Committee Meetings (SLBC) in States where the Bank is not the Convenor of the SLBC

- a) To participate in the SLBC Meeting & other SLBC forums in case of the States/Union Territories wherever the Circle Office is not located in the State/ Head Quarters and wherever the RO executives are designated to participate in the SLBC meeting and other fora.
- b) To prepare the background papers based on the agenda for, executive level participation in the various meetings convened by SLBC convenor.
- c) To ensure participation of the designated Branch Heads

(in States where the number of our branches is less than 5) in the SLBC meetings.

- d) To get the feed back from the designated Branch Heads (Annexure VI, VII) along with the agenda/ background papers.
- e) To follow up for the minutes of the SLBC meetings and to initiate appropriate action for compliance of the action points pertaining to the Bank and to apprise the Circle Head in the matter on an ongoing basis.
- f) To participate in State Level Task Force Committee meetings convened by NABARD to review the performance of Banks under SAMIS (Service Area Monitoring and Information System). To apprise the Region Head about the performance of the Bank under SAMIS and to initiate action wherever necessary.
- g) To ensure 100% submission of the LBS statements under SAMIS by all the branches.
- h) To submit data to the SLBC convenor in time.
- i) To submit topics for agenda to SLBC Convenor for placing in the SLBC meetings based on the feed back received from the branches/offices/our lead districts.
- j) To submit report to PC Section, Head Office, (in Annexure V) wherever the RO executives are designated to participate in the SLBC meetings.

II. Lead Districts

- a) To guide and monitor the Lead District Manager.
- b) To participate in all the District Level meeting convened

by the LBO.

- c) To maintain a very good liaison with "the District Administration, Offices of the various development departments, development agencies, Bankers, Financial Institutions, NGOs, Members of Parliament and elected leaders, etc.
- d) Identification of suitable officers to be posted as the Lead District Manager with the support of Circle Office.
- e) Review of the performance of the Lead District Managers on a quarterly basis and to guide him on an ongoing basis to discharge his duties effectively.
- f) To review the LDMs diary on a monthly basis and to place the same before the Region Head at quarterly, rests.
- g) To ensure that the LDMs conduct the DCC and DLRC meetings in time.
- h) To ensure that the LDMs organize Entrepreneurial Development Programmes (EDPs) for minorities in minority identified districts.
- i) To ensure that the LDMs conduct Block Level Consultative Committee (BLCC) meetings every quarter.
- j) To ensure that the LDMs invite and ensure participation of Members of the Parliament and the elected representatives in the DLCC meetings.
- k) To ensure timely convening (by District Central Co-operative Banks) participation in District Level Technical Committee meeting to fix the scale of finance

well in time.

- l) To take up the matter with DLTC for revision of scale of finance wherever necessary.
- m) To support the LDM to organize Lok Adalats by having good liaison with the judicial department.
- n) Maintain good liaison with the District Collector, Zilla Panchayat Development Departments, RBI, NABARD.
- o) Monitor implementation of Govt. Sponsored Schemes.
- p) Ensure timely reporting of branches under SAMIS.

III. In Non-Lead Districts

- a) To recommend to CO to designate the District Coordinators in Non-Lead Districts on an ongoing basis.
- b) To ensure that the District Coordinators invariably participate in all the District level meetings.
- c) To ensure receipt of the feedback from the District Coordinators (in the format enclosed as annexure VII) along with the agenda / background papers.
- d) To review the proceedings of the DCC / DLRC meetings in all the Districts and initiate action wherever necessary.
- e) To review and guide the RO / Branches for improving the performance wherever required based on the DCC / DLRC / Standing Committee Proceedings.
- f) Ensure timely reporting under SAMIS.

IV. Other matters

- a) To issue guidelines to LDMs and branches for timely

completion of the process of Annual Action Plan preparation and to follow up in the matter.

- b) To approve the Annual Action Plans of the branches and to ensure that they envisage a healthy credit growth rate of 15-25% every year.
- c) To ensure that the Lead Bank Offices are provided adequate infrastructural support (including Personal Computers, Dot Matrix printers, telephones at office and residence, jeep, etc) and adequate supporting staff.
- d) To identify and recommend (to PC Section, Head Office) newly posted LDMs for training at BIRD/NABARD.

LEAD BANK OFFICE

In the Districts where our Bank is the Lead Bank, the duties and the functions are managed by the Lead Bank Office headed preferably by a Scale III Officer who is designated as Lead District Manager (LDM). The selection of the LDM is made by the Circle Office in consultation with Regional Office. Normally, an Officer with very good communication skills, highly motivated, well informed and development oriented and preferably knowing the local language is selected for the post. He has to maintain a very good liaison with the District Administration, various development departments/agencies and should have compassion for the community at large. The Lead Bank Office will normally provided with an Officer with Scale I or J necessary clerical / typist support.

I. Duties and responsibilities

- a) To convene various meetings un the Lead Bank system

viz., Standing Committee, District Consultative Committee, District Level Review Committee, etc.

- b) To participate in all the District Level meetings convened by the State Govt. wherever necessary.
- c) To maintain a very good liaison the District Collector, District Administration, Offices of the various development departments development agencies, Bankers, Financial Institutions, NGOs, Members of Parliament and elected leaders, etc.
- d) To review the performance of the Banks under Annual Action Plan, Govt. sponsored programmes, submission of Lead Bank statements under SAMIS, CD Ratio, etc. and to take up the matter with the appropriate authorities through the office of the District Collector/ Deputy Commissioner, wherever found essential.
- e) To complete the process of Annual Action Plan Preparation and launching, including circulation of Potential Linked Plans, getting the plans from the participating banks with the approval of their Regional Offices, publishing the Annual Action Plan booklet and organizing the launch programme before 31st March..
- f) To take appropriate steps for rural industrialization with the support of the Govt. agencies and line department.
- g) To co-ordinate with the District Development Manager (DDM) of NABARD, Lead Bank Officer of RBI and the various Govt. departments for overall development of the District.

- h) To submit the LDMs diary on a monthly basis to Circle Office.
- i) To organize Entrepreneurial Development Programmes (EDPs) for minorities in minority identified districts.
- j) To conduct Block Level Consultative Committee (BLCC) meetings every quarter.
- k) To invite and ensure participation of Members of the Parliament and the elected representatives in the DLRC meetings.
- l) To ensure timely convening (by District Central Co-operative Banks) and participation in District Level Technical Committee meeting to fix the scale of finance well in time.
- m) To take up the matter with DLTC for revision of scale of finance wherever necessary.
- n) To organize Lok Adalats by having good liaison with the judicial department.
- o) To review the performance of the Canara Bank branches in particular and guide the branches for improving the performance wherever required.
- p) To apprise the Regional Head on the performance of Canara Bank branches in the Lead District and solicit support for improvement wherever required.
- q) To organize seminars and extension activities to popularize new concepts for the benefit of the local population with the support from various line departments, NABARD, etc.

- r) To act as a liaison between NGOs, Banks, NABARD and Govt. agencies to promote Self-Help Group movement.
- s) To ensure that the Annual Credit Plan of the district envisages a healthy growth of 15-25%.
- t) To ensure that all the Banks and financial institutions actively participate in the credit dispensation programme.
- u) To allocate targets under various Govt. sponsored schemes equitably among all banks including private sector banks based on the branch net work, business position, etc. with the concurrence of implementing agency.
- v) To allocate targets under Kisan Credit Card, Laghu Udhyaami Credit Card, Artisan Credit Card, equitably among; all banks including private sector banks based on the branch net work, business position, etc.
- w) To take up with SLBC matters requiring attention /decisions at State level.
- x) Lead District Managers are to submit a monthly report to the respective AF Section, Circle Office (with a copy to; Regional Office) before 5th, of succeeding month giving details of performance/activities undertaken during the month.

II. Other matters

- a) To support the branches by effective liaison to increase the credit off-take of the branches under Agriculture, SSI and Priority Sector.

- b) To organize seminars on agriculture and extension activities / exhibitions for the benefit of Canara Bank branches in the district in co-ordination with the participating branches and the Regional Office.
- c) To liaise with the agencies implementing crop insurance scheme and the Banks.
- d) To conduct study on various areas of priority credit as per the directions of the RO/CO/HO.
- e) To attend to any other matter assigned by the Regional Head based on the exigencies of the services.

DISTRICT CO-ORDINATORS

- a) To participate in all the District level meetings and represent the Bank on behalf of the branches operating in the district.
- b) To give feedback to the RO/CO (in the format enclosed as annexure VII) along with the agenda / background papers.
- c) To review the proceedings of the DCC / DLRC meetings in all the Districts and recommend to the Regional Office/ Circle Office to initiate action wherever necessary.
- d) To review the performance of our branches and guide the branches wherever required based on the DCC / DLRC / Standing Committee Proceedings.
- e) To maintain proper liaison with District Administration, Lead District Manager and the various developing agencies.

- f) To collect and consolidate and subri various statements including SAMIS

BLOCK LEVEL BANKERS COMMITTEE CONVENORS

BLBC is normally convened by Branch Manager of the Lead Bank of District wherever they have a branch in block head quarters. Wherever the Bank has no branch in the block head quarters, the convenorship of the BLBC be assigned to the Bank having major share in the branch net work in particular I with mutual consent. In such cases designated branch of the Bank shall have the following responsibilities:

- a) To convene the BLBC meeting on quarterly basis.
- b) To send meeting notice to the participating bank branches.
- c) To circulate the proceedings of the BLBC meeting among the participated branches and the LDM.
- d) To liaise with the block level officials LDM and the banks for an effective and purposeful deliberations.

1.12 Problem and Prospects – The approach methodology and limitations of the study, source of data and coverage (area and aspects to be covered). Outline of the Chapters.

1.12.1 Objectives of the Lead Bank:

- a) To initiate steps for technological upgradation and modernization of existing units.
- b) To facilitate marketing of Small Scale Sector products in India and abroad.
- c) To promote employment oriented industries in Semi-urban areas to check migration of population to big

cities.

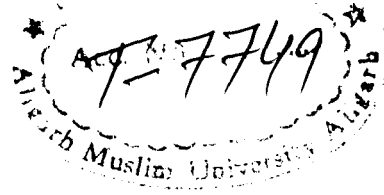
The Union budget 1996-97 envisages a number of measures to develop small-scale sector with the Lead Bank as the focal point.

Lead Bank plays a very important role for the development of SSIs. It provide assistance to the entire SSIs sector including tiny, village and cottage industries, through suitable schemes to meet the requirement of setting up of new projects, expansion, diversification, modernization and rehabilitation. After 1992, it introduces 26 new schemes to fill the gaps in credit delivery system. It has provided equity capital, domestic currency term loans, working capital finance etc. governmental agencies, international agencies, R & D institutions, and industry associations for developing SSIs. The Lead Bank is also operating under Single Window Scheme and Adoption of Cluster for Technology Upgradation and various Human Resource Development programmes in backward areas.

Methodology:

For the purpose of the study, secondary data obtained from various sources was assessed and analysed. In Aligarh district, some small-scale industries as well as govt. functionaries were also approached to get first hand information about their perception of the problem. But District Industries Centre did not give the records of SSI growth. Similarly except few Entrepreneurs of SSI the entrepreneur's reactions were non-cooperative and they did not disclose most of the information. So, secondary data were collected from journals, newspapers, and Annual reports of

Canara Bank etc.



1.12.3 Objectives of the Study:

The main objectives of the study were as follows-

- a) To identify and analyse the role of Lead Bank in financing SSIs in Aligarh district.
- b) To assess the problems of SSIs in availing term loan from financial institution.
- c) To identify the different sources of financing SSI from other institutional sources.
- d) To examine the problems faced by SSI in getting their capital requirements from financial institutions.
- e) To seek remedies and give pragmatic solutions having policy implication.

1.12.4 Hypothesis:

For the purpose of the present study the following hypothesis have been formed -

- i) Finance acts as a constraint in the growth of small-scale industries in Aligarh district.
- ii) Lead Bank of the District (Canara Bank) with its tremendous potential can be very effective in solving the problem of financing SSIs in Aligarh district.

1.12.5 Limitations of the Study:

- a) The main limitation is that the entrepreneurs are not cooperative in disclosing their information.
- b) Majority of the SSI units never maintain proper records viz. cashbook, ledger, stock statement, profit

and loss account and the balance sheet etc. Similarly most of the institutions do not have records of small-scale units.

- c) The general conclusions of the study would help in developing insights and understanding of the problems faced by small scale sector in the field of finance, the role of Lead Bank for the development of SSIs. The conclusions of the study may not be applied to all the districts in *UP* as well as other parts of the country. This is because different districts and areas may have different problems and may need different solutions.

1.13 Outline of the Chapters:

Chapter – 1 primarily deals with a brief introduction on Lead Banks and the importance of the study, general significance in the context of Financing Small Scale Industries. Moreover, it describes the role of Lead Banks in Financing SSIs. It also deals with their specific role in regional development and background areas. Apart from this, objective, hypothesis, methodology and limitations of the study are taken into account.

Chapter-II deals with a brief review of available literature on SSIs. It has also taken into account the present scenario with reference of financial and institutional support. It has also dealt with few review committee reports on SSIs as well as on Lead Bank Scheme. Lastly this chapter has described the Role of Small Scale industries in Economic Development also.

Chapter – III includes socio-economic profile of Aligarh

District, i.e, general background, geography and economic scenarios. Infrastructure of industrial development, inter-district or inter-regional data and analysis. It has also dealt with the scenario of industrial sector in Aligarh district and constraints, problems for future growth of small scale sector.

Chapter-IV deals with the financial aspect of small scale sector in UP and Aligarh district, specific institutions, District, State support and state aided sources of finance. It has also taken into account the role of Lead Bank (Canara Bank), its relative importance as a source of financing and lastly this chapter also includes Analysis of survey results undertaken in Aligarh District.

Chapter-V deals with the problems and prospects of financing by the Lead Bank. Moreover, problems specific to Aligarh district is taken into account.

Chapter-VI presents the conclusion and recommendations.

Notes & References

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CHAPTER – 2

A BRIEF REVIEW OF LITERATURE

2.1 Review of Literature:

The review of literature forms an important part of research because it deals with critical examination of various published and unpublished works related to the study undertaken. Therefore, the brief review of various works of authors as well as several committee reports related to the financial and institutional support to SSI have been highlighted.

Nayak Committee (1992)¹ was constituted by the R.B.I in 1991 which submitted its report in 1992 to examine the adequacy of institutional credit to the SSI sector and related aspects. This committee found that banks have insufficiently serviced the working capital needs of the SSIs particularly that of village and thinly enterprises. Moreover there is need for setting up of specialized bank branches for small scale industries. The absence of which as led to serious bottleneck. Further the system of providing term credit and working capital by two kinds of institution. Banks and SFC (state financial corporation) has given rise to host of problems of cooperation among them.

K. Ramesha (1994)² examined the trends in credit supplied to small scale industries by schedule commercial banks (SCBs) and state financial corporations (SFCs) and their inter state disparity. The study found that commercial banks continue to play an important role in financing. It sector has in a way failed to meet the increasing credit requirements of SSI sector. The inter state disparity in the distribution of

credit have also widened between 1989-90 and 1995-96. Moreover, the credit from SFCs term credit has shown relative higher growth rate as compared to bank credit (Short term) but still inter-state disparity in SFCs credit has also widened during the reference period. Further, there seems to be a sort of complement relationship between banks and SFCs in financing small sector. Majority of the states that had low bank credit happened to be relatively strong in SFCs credit.

J. Chandra Prasad and V Narayana Rao (1996)³ in their study had observed that finance stands as a major bottleneck in the way of export activity of SSI sector. Some units, though produce exports potential items could not tap the market due to lack of finance and the consequent export promotion handicap.

A. Ramakrishna Rao, K. Rajgopal and V V. Munniswamy (1997)⁴ studied the effect of project delay on project productivity in the small scale units. They concluded that the difference of actual cash flow and planned cash flow is one of the reasons for delay of project so, banks and financial institutions should have regular interaction with the entrepreneurs in order to reduce delay in disbursements of loan.

Technically qualified staff should be associated in project appraisal. During the implementation stage, sickness of SSI units during the project stage is due to the shortage of funds at the right time. That is why the small units require timely credit rather than cheap credit. The schedule of higher investment activities at the end is a better schedule than the schedules of project with higher investment at the beginning.

Abid Hussain committee (1997)⁵ on small enterprises examined and suggested institutional arrangements and policies and programmers for meeting long term and short term requirements of the small enterprise. The committee found that the reservation policy of specific product for exclusive manufacture by small scale industries had not served much purpose as most industrialization had occurred in items not reserved for small scale industries. Moreover, it had resulted in low efficiency and productivity and restrictive the expansion and exports potential of important industries, viz light engineering, Food processing, textiles and other. Credit to small scale industries had become more expensive after interest rate deregulation institutions and regulatory policies responsible for technical assistance, human resource development, industrial standardization etc. expected to play a productive role in halting technological obsolescence (particularly among tiny units) did not prove effective.

D.D. Mali (1998)⁶ in his study has observed that small and medium enterprise (SMEs) increasing competition in current scenario “quality withhold the key” along with it they have to specifically improve in the areas on management, capability, marketing, product diversification technological up gradation, changes among offices of banks and financial institution for smooth credit flow to the small and medium enterprise (SMEs) and micro enterprise. Moreover, new small and medium enterprises (SMEs) may have to move from slow growth area to high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank industries to guide the prospective entrepreneurs including investors abroad are also needed.

S.L. Kapur Committee (1998)⁷ studied the various problems related to the credit flow to SSI sector and to suggests appropriate measures for their redressed. The committee found the performance of commercial banks unsatisfactory. In respect of small scale industries financing persisted with regard to non adherence of working capital norms as suggested by Nayak Committee and poor flow of credit to tiny units where the loom existed. Banking staff management was not well trained in the task of appraising small scale industries projects.

S.K. Mitra (1998)⁸ in his study observed that the main factors affecting flow of credit to the SSI sector could be broadly categorized into two segments. One set of reasons indicate shortcoming inherent in SSI like a weak financial base which eventually prompts the entrepreneurs to bring in funds by way of loan rather than capital. Improper maintenance of book of accounts, inability to provide collateral security, delay in payments by the larger units, lack of appreciation of financial data required by banks or financial institutions etc. The second set of reasons are attributed to the operational restraints and perceptions of banks and financial institutions. Like the administrative cost of lending to small borrowers are relatively high, thereby resulting in a disincentive to SSI units. High mortality in the interest rate does not motivate the financial institutions intrinsically to invest in SSI units etc.

V.S. Kaveri (1998)⁹ in his study made an attempt to discuss issued related to bank finance to small scale industries. He councluded that due to economic liberalization and financial sector reforms small scale industries have a bright future

provided they remain economically viable. Modernization is the need of the hour for which they will require increasing credit from the banking sector. Therefore, they should be cordial relationship between banks and borrowers. Moreover, there is need for educating both, for timely and adequate flow of institutional credit to SSI sector.

C. Sivarami Reddy, P. Mohan Reddy and Harinatha Reddy (1999)¹⁰ made an analysis of various sources of working capital financing in small scale industries group so as to ascertain the significance and dependability of each of these sources. They conclude that in majority of SSI excessive lands to financing of working capital was restarted to such a situation deprives funds for long terms purpose on the one hand and adversely affects their profitability on the other. The long term funds are excessively used to finance working capital needs of small scale industries as these units were not able to tap required funds for working capital from commercial banks.

N. Rajendra (1999)¹¹ made a study to examine the various kinds of assistance given by the institutions with the prime objective of identifying institutional assistance for the development of small scale industries and the problems faced by small scale industries of district. He concluded that the greatest problem faced by the small entrepreneurs was non availability of adequate financial assistance. Moreover, the small enterprises also faces raw material, marketing technological and administrative problems. There were complicated procedures in availing loans from financial institutions and no coordination exists between the promotional institutions and government agencies. Industrial

sector in India is dominated by SSI but this sector suffers from technological backwardness therefore, for technological up gradation small enterprises requires ample financial and technical support from the government agencies and other financial institutions.

Sunni George (2000)¹² in his study of small scale industries and economic liberalization concluded that all is not well with small scale industries even today. Protection policy has lead SSI to remain small to become more inefficient with product quality. It is not protection but competition that should be the rule of the day. Efficient management, strong marketing strategy to cope with international marketing standards production of world class products with top quality, alone can infuse in the SSI sector. The government should provide infrastructure at reasonable cost, and in small scale sector where we have traditional skills in finishing and manufacturing. Government must liberally allow import of raw materials to attract foreign investors who can set up comparatively low cost precaution base in India.

J. Revathy & K.V. Rao (2001)¹³ in their study found that lack in access to credit represent a strong restriction or acts as a hindrance on the expansion of SSI establishments. The proprietors themselves thought financing as their most pressing input constraints. It was found that borrowed funds occupied a dominant position in the total sample units. Share capital, reserves surplus have contributed to the extent of around one fifth only. Viewed from the point of the structure of liabilities, current liabilities and provisions have occupied 50.3 per cent. The relationship between short term and long term liabilities revealed that short term liabilities

had occupied a place of prominence. Short term liabilities were found to be four times more than the long term liabilities in the sample units. This clearly shows the dependence of small Business Units (SBUs) on temporary sources of funds than permanent ones.

Valsamma Anthony (2002)¹⁴ in his study of the prospects and growth of small-scale industries in India highlighted that adequate and timely availability of working capital and marketing avenues for small-scale industries products should be ensured for improving their competitive strength in the domestic and global markets. There is need for providing better information and excellent networking for the small scale industries besides development of quality infrastructural facilities.

The small-scale sector can go on wings with the sincere efforts of the entrepreneurs, the dedicated functioning of the promotional agencies without red tape or bureaucratic delays and pragmatic approach by the government.

Nowadays the Lead Bank has expanded new schemes of Technology Development and Modernisation fund, with a corpus of Rs. 200 crores for direct assistance of small-scale industrial units in the sector to modernize their production facilities and adopt improved and updated technology so as to strengthen their export capabilities.

Credit Related Development Scheme (2004)¹⁵ based on Kapur Committee, recommendations specialized bank branches for SSIs lending have been setup. By March 2004, there were 417 such bank branches in the country but they have not achieved the desired objectives. It was also found that

availability of credit is a major problem.

To check this problem standing Advisory Committee of RBI in February 2004 was constituted to reduce the credit cost and the finance Minister announced the creation of SSI fund of Rs. 200 crores in January 2004.

Some other credit related development in years are preparing of exclusively credit plan for 60 clusters by the banks. These plans merged with Annual Credit Plan state.

IMPORTANT RECOMMENDATIONS OF DR. OJHA COMMITTEE (2004)¹⁶

The Committee opined that the Lead Bank Scheme has helped in bringing a great deal of co-ordination between Banks and Government Departments through forums established at the district and state levels. But, as the district development plans and branch performance budgets could not be advocated with the DCPs and AAPs prepared under the scheme, they could not acquire the full status of operationally relevant plans for implementation. The lack of involvement of Branch Managers in the preparation of plans was also responsible for the plans not becoming meaningful to them. Under these circumstances, an alternative system as suggested in the Seminar appears to be more conducive to develop productive lending.

The issue of demarcation of area as advocated by the working group on multi-agency approach on Agricultural Finance was formalized with the advent of SAA. The committee also expressed that such an approach would have distinct advantages in the dispensation of credit. Firstly, it enables the branches to pay concentrated attention on the

development of the area. Secondly, as the multi-agency approach has to some extent, resulted in duplication of efforts, a new approach may help in avoiding the same. Thirdly, the scattered lending over wide areas would give way to organized lending. Fourthly, it would make it easier for the Branch Managers to effectively monitor the end-use of credit and assess the impact on increase in the levels of production, productivity and incomes of the beneficiaries. Fifthly, as the plans would be drawn up by the branch manager, he would develop a sense of pride, motivation and involvement in the success of his plans.

2.2 Role of Small Scale Industries in Economic Development:

It is well-established fact that the SSI plays an important role not only in the growth of global output and world trade but also in employment generation and balanced regional development. The growth of the sector has a catalytic effect on the overall growth of the economy. As per the Govt. of India's Tenth Five Year Plan (2002-07) achieving and sustaining high growth rate and employment will require sharp set up in industrial and services growth. Now there is wide spread recognition within India that vibrant SSIs are potentially a key to engine of economic growth, job creation and greater prosperity. So we can say that small industries play a vital role in resurgence of an economy.

Definition and Concept of SSI:

Under the section II B of Industries (Development & Regulation) Act 1951, the SSI is defined as a unit, which has investment in plant and machinery not exceeding Rs. 100

lakhs (Rs. 10 million). There exists a definition for micro enterprises popularly known as tiny units. Actually tiny unit is one having investment in plant and machinery not exceeding Rs. 25 lakhs (Rs. 2.5 million). Industry related to services and businesses are also included within the purview of SSI sector in their fixed investment not exceeding Rs. 10 lakh (Rs. 1.0 million).

As we know that limit is revised from time to time to offset the impact of inflation and to meet technological needs.

In India, the first official criterion for SSI dates back to the Second Five Year Plan when it was in term of gross investment in land, building plant and the strength of labour force.

So Small Scale Industries Board defined it as "A unit employing less than 50 person, if using power and less than 100, without use of power and capital assets not exceeding Rs. 5 lakh". Later this has been revised again by SSIB, and a new definition has come that small scale industries will include all industrial units with a capital investment of not more than 75 lakh irrespective of the no. of person employed.

When Indian Government announced Industrial Policy in July 1980, the small scale industrial unit was defined as a unit engaged in industrial activity and having original investment in plant and machinery upto Rs. 20 lakh.

Again, in July 1991, the government announced industrial policy, investment limit for tiny units have been increased from 20 to 25 lakhs accepted the recommendation of Abid Hussain Committee.

Later Govt. also announced increase in the investment limit

in plant and machinery of SSI i.e. from 60 lakh to 70 lakh and to Rs. 75 lakh respectively which extended to 3 crores in 1997 for such industrial units.

On Feb. 17, 1999 the Union Government reduced this limit of 3 crores to Rs. 1 crore. The investment ceiling for tiny units remained unchanged at Rs. 25 lakh.

Registered and Unregistered SSI units:

"In Small Scale Industrial Sector the registration is voluntary. The registration is done with the District Industries Centres (DICs), firstly on temporary basis and subsequently on the request of the concerned entrepreneurs, on a permanent basis. However, as far as manufacturing units are concerned, their registration is mandatory under sections 2m(i) and 2m(ii) of the Factories Act. Section 2m(i) implies to units engaging 10 or more workers and using power whereas section 2m(ii) refers to units engaging 20 or more workers and not using power. Some state government notify certain industrial activities for mandatory registration, although they do not confirm to the criteria laid down under section 2m(i) and 2m(ii). Such registrations are done under section 85(i) and 85(ii). Section 85(i) refers to units engaging less than 10 workers and using power and section 85(ii) refers to units engaging less than 20 workers and not using power".

2.3 Distinction between Small Scale and Cottage Industries:

The main difference between small scale and cottage industries are:

1. Small-scale industries are mainly located in areas as separate establishment while the cottage industries are

generally associated with agriculture and provide employment in rural areas.

2. A small-scale industrial unit employ a wage earning labour and production is done by the use of modern techniques. While a few cottage industries, which are export oriented, have been included in the category of small-scale sector so that facilities provided to small units may also be given to export oriented cottage industries. There is no wage earning person employed.
3. Small scale industries produce goods with partially or wholly mechanized equipment, employing outside labour, the cottage industries involve operations mostly by hand which are carried on primarily with the help of the members of the family.
4. In small scale sector there is capital investment. While in cottage industries, it possesses negligible capital investment. Family members run cottage industry on full or part time basis.

2.4 Growth of Small Scale Industries in National Context:

Small Scale Industrial sector forms an important constituent of unorganized manufacturing sector in India. These units emerged as an engine of growth in several countries and also in the developing countries like India.

In India they have emerged as a vibrant and dynamic component of the economy.

Table-2**Growth of SSI in National Context**

Year	No. of units (in lakhs)	Exports (Rs. crores)	Production (in crores)		Employment (in lakhs)
			Current prices	Constant prices	
2000-01	101.1	69,797	261,289	184,401	239.1
2001-02	105.2	71,244	195,613	195,613	249.1
2002-03	109.2	86,013	210,636	210636	260.1
2003-04	114.0	94,644	357733	228,730	271.4
2004-05	118.59	124,417	418,263	251,511	282.91
2005-06	123.32	N.A.	471,244	275,581	294.1

Source: Office of the Development Commissioner (SSI), Govt. of India.

Table-2 shows During 2000-01 to 2005-06, the small-scale sector is estimated to have recorded from 261,289 crores at current prices in 2000-01 to 471,244 crores at current price in 2005-06. The number of units in small-scale sector is estimated to have increased to 123.42 lakhs unit at end March 2006 as compared to 101.10 lakhs units at end March 2001. Employment in the sector estimated at the level of 294.1 lakh at end March 2006 as compared to 239.09 lakhs person employed in small-scale sector in 2000-01 The exports at Rs. 124417 crores during the year 2004-05 up from Rs. 69,797 crores during the year 2000-01 is as shown in Table 2.

"Policy initiatives for promoting small enterprises":

- For allowing small enterprises to grow, 193 items reserved for exclusive manufacture in the small-scale sector. Dereservation in 2004-05 to bring down the total number of reserved items to 506. After consultations with stakeholders, more items are proposed to have dereservation in 2005-06.
- As announced in the Budget 2005-06, the turnover eligibility limit under the General Small Scale sector excise Exemption Scheme raised from Rs. 3 crore to Rs. 4 crore.
- With a view to integrating small and medium enterprises, facilitating their growth and enhancing their competitiveness (including measures to reduce the rigours of the "Inspector Raj" faced by the sector), the 'Small and Medium Enterprises Development (SMED) Bill 2005' introduced in the Lok Sabha on the 12th May 2005.
- A 'Policy Package for Stepping up Credit to Small and Medium Enterprises' announced on 10th August, 2005.
- Under the 'Credit Linked Capital subsidy Scheme' (CLCSS) for technology upgradation, amendments made with effect from September 29, 2005, which, inter alia, raise ceiling on loans from Rs. 40 lakh to Rs. 1 crore and their rate of subsidy from 12 per cent to 15 per cent.
- RBI formulated the scheme of 'Small Enterprises Financial Centers' (SEFC) to encourage banks to establish mechanisms for better coordination between

their branches in the identified clusters for more efficient credit delivery.

- To facilitate technology upgradation and enhance competitiveness, the investment limit (in plant and machinery) raised from Rs. 1 crore to Rs. 5 crore in respect of 69 items reserved for manufacture in the small-scale sector and for all items in the drugs and pharmaceutical sector. Notification to this effect to be issued shortly.
- A new 'Package for Promotion of micro and Small Enterprises' under formulation to include supplementary measures to encourage adequate credit flow, provide further incentives for technology upgradation, infrastructure and marketing facilities, capacity building of micro and small enterprises, and support to women entrepreneurs

The reason for which small scale industry should be assigned an important place in the development of the Indian economy having in, these days of large scale industry are summed up below.

1. Predominance of SSIs
2. Continuous employment to agriculturist.
3. Reduction of excessive pressure on land.
4. High employment potential.
5. Small capital required.
6. Decentralization of possible industries.
7. Competitive advantage.

8. Low incidence of fluctuation in employment.
9. Low social cost.
10. Prevention of concentration of economic power.
11. Mobilization of latest resources.
12. Suitability in Indian condition.
13. Ancillaries to target industries.
14. Short gestation period.

For all these reasons SSI plays an important role in the program of industrial development of India.

2.5 General constraints for proper growth of SSIs:

- Inadequacy of credit resulting into sickness of the unit because of their inability to provide collateral insecurity.
- Financial institutions charges high interest rate.
- There is lack of specialized managers in SSIs.
- Low level of technology
- Due to increasing input cost unable to provide quality product.
- Absence of research and development facilities in SSIs.
- Red Tapism
- Low level of technology
- Low financial or capital for advertising.
- Absence of consortium leading to increasing cost of raw material
- There is lack of appreciation of financial data and

relevant information as required by the banks and financial institution.

- Poor infrastructural base.
- Lack of personnel training
- Lack of design development centres
- The delay in release of payment by the larger units to small-scale units.
- No proper support from financial institutions to revive the loss making units.
- Under utilization of capacity
- Insufficient export credit.
- Poor marketing skill
- The SSIs are not in position to maintain proper books of Account because of lack of knowledge.

2.6 Major Constraints of SSIs:

Some of the major constraints in the growth of SSIs are as follows;

2.6.1 Finance and credit constraint:

The scarcity of finance and credit is the main obstacle in the development of small-scale units, which results sickness of SSI and ultimate closure. Because of weak financial base which eventually prompts the entrepreneurs to bring in funds by way of loan rather than capital, improper maintenance of books of account, inability to provide collateral security, lack of appreciation of financial data required by the banks or financial institutions intrinsically to invest in SSIs units etc. and others, which we have discussed

above in general constraints.

The govt. of India recognized the importance of credit flow for the development of SSI and this was a major motivation for bank nationalization setting up of State Finance Corporation, Lead Bank and other institutions. Banks were mandated to provide 40% of their lending to the priority sector.

2.6.2 Infrastructural Constraints:

Keshav Das and Sebastian Morris found in their survey that about 1063 firms, 716 firms faced significant infrastructural problem. The most severe constraint is power. Transportation, communication and infrastructure are also universal constraint. In many Small Scale Units (particularly those relating to beverages, tobacco, basic chemicals, paints and varnishes and drugs) water supply is fast emerging as an important infrastructure constraint.

2.6.3 Marketing Constraints:

One of the main problems faced by the SSI is marketing. The SSIs units often do not possess any marketing organization and consequently their product as compared are unfavourable with the quality of the product of large-scale industries. Because of shortage of capital and financial resources, these units do not have adequate staying capacity.

To check small scale units from competition from large scale units the government has reserved certain items, for SSI sector. The Trade Development Authority and State Trading Corporation helps the SSI, in organizing their sale.

2.6.4 Technology Constraints:

For small scale sector technology is also a challenge. Majority

of the units are still carrying on with outdated technology. So, there is need for modernization and technology upgradation with a view to reduce cost and prices and increase competitive power of the product of this sector.

2.7 Institutional Support for Financing Small Scale Sector:

The central government and state government for the development of SSI sector in the country promote a large number of institutions and organizations. The main Central Government organization are as follows:

2.7.1 Lead Bank Scheme (LBS):

This scheme was initiated in December 1969. Under the scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to co-ordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning. Certain sectors which were neglected were given a priority status and banks were asked to provide credit to these sectors in a more concerned way.

Forums under Lead Bank Scheme for Co-ordination and Monitoring

Lead Bank Scheme (LBS) was evolved as a framework to be more responsive to the needs of the rural economy. The objectives of the scheme cannot be achieved unless rural lending is properly tied to well designed programmes of development. This calls for effective co-operation and co-ordination not only between credit institutions but also between the credit institutions on the one hand and the concerned government and other development agencies on

the other. Appropriate forums had to be created where these two agencies can meet periodically to discuss operational issues arising from the implementation of scheme evolved by both government and the Banks. Initially forums were setup at the District and State Level.

2.7.2 Small Industries Development Bank of India (SIDBI):

For meeting the long standing demand of a small scale industries for a separate Apex Bank to provide financial assistance to them, the government established under the Small Industries Development Bank of India Act 1989 as a wholly owned subsidiary of IDBI, i.e. 'SIDBI'. It commenced its operation from April 2, 1990 by taking over outstanding portfolio and activities of IDBI pertaining to the small scale sector.

The main function of SIDBI include:

- Technological upgradation and modernization of existing units.
- Expanding the channels for marketing the product of SSIs
- Promotion of employment oriented industries especially in semi-urban areas to create more employment opportunities.
- Refinance of loans and advances
- Discounting and rediscounting of bills
- Granting direct assistance and refinance of loans
- Providing services like factoring leasing etc.

- Extending financial support to small Industrial Development Corporation.

2.7.3 Small Industries Development Organization (SIDO):

SIDO was established in 1954 on the recommendations of the Ford Foundation team of Government of India for the development of SSIs. It is headed by the Development Commissioner (SSI) who is an ex-officio Additional Secretary to the Government of India. That is the reason, the office of the Development Commissioner (SSI) is commonly known as SIDO.

It is the nodal organization, which implements Central government policies. It operates through a network of 28 small industries services institutes (SISIs), 30 branches of SISIs and a host of other centres. The main function of SIDO is as follows:

- It has been evolving an all India policy and programme for the development of SSIs.
- Maintaining liaison with different state and central Ministers, Planning Commission, RBI and financial institution.
- Coordinating the various programmes and policies of State Government.
- Dissemination of economic information.
- Assisting SSI units in technological upgradation by providing quality tool facility.
- Increasing efficiency of SSI units by providing consultancy and common service facilities in the areas of design and production of tools

- Monitoring the Prime Minister Rojgar Yojna (PMRY)
- Helps in preparation of project file.
- Helps in skill development
- Helps in entrepreneurship Development and Management Training.

2.7.4 Small Industries Services Institutes (SISIs):

The SISIs were set up in state capitals and other industrial cities in the country. There are all together 28 SISIs and 30 branches SISIs in India. Their performances are overseen by the office of the DC (SSI). The main functions of SISIs are as:

- Technological development services and consultancy services
- Interface between Central and State Government.
- Entrepreneurship Development programme
- Promotional programmes
- Ancillary development
- Promotion of export

2.7.5 Small Scale Industries Board (SSIB):

SSIB was set up in 1954. This board facilitates the coordination and inter institutional linkage for the development of SSI sector. Union Minister of India Industries is the Chairman of SSIB. It also includes members' state. Industry Ministers, selected members of Parliament, Secretaries of various department of Central Government, Financial Institutions, Public Sector Undertaking (PSUs), Industry Association and eminent experts in SSI sectors are as the member.

2.7.6 Product-cum-Process Development Centre (PPDCs):

PPDCs have been set up to look into specific problems of an industry, develop new technologies, render technical support services, and manpower development. PPDCs have been set up at 6 places to provide services to SSIs. These are at Meerut (sports goods), Ramnagar (electronic), Agra (foundry), Bombay (electrical instrumentation), Firozabad (glass industry) and Kannauj (essential oil).

2.7.7 National Small Industries Corporation (NSIC):

The Government of India established NSIC in 1955, its aim is to promote and foster the growth of SSIs in the country. It helps the SSI through its various programmes and projects. NSIC plays a very important role through modernization, technological upgradation, quality consciousness, strengthening linkages with large and medium enterprises and boosting exports of products from small enterprises. Some of the services of NSIC are -

- Provide machinery and equipment through Hire Purchase scheme.
- Provide Machinery and equipment through Lease scheme
- Provide finance to SSI for marketing, bill discounting, raw material purchase and for export.
- Marketing assistance
- Assistance for procurement of raw material
- Technology Transfer Centres
- The main State Government agencies are as follows:

2.7.8 State Financial Corporation (SFCs):

Under the SFCs Act SFCs were set up in 1951 for the development of small and medium enterprises. The SFC provides various services to SSIs through -

- Term loan
- Guarantees
- Direct subscription to equity
- Seed capital assistance
- Discounting of bill of exchange

Under the single window scheme of SIDBI, SFCs have also extended the working capital along with term loan to mitigate the difficulties faced by SSIs in obtaining the working capital limits on time.

2.7.9 District Industries Centre (DICs):

In May 1978 DIC was initiated for the promotion of small scale and cottage industries beyond big cities and state capitals to the district head quarters. It was started as a centrally sponsored scheme with the aim of developing small, tiny and cottage industries in the country. Main services of DICs are:

- Provide machinery and equipment
- Economic investigation of local resources
- Provide raw material
- Marketing
- Provision of credit facilities
- Quality input

- Consultancy and extension services

2.7.10 State Industrial Development/ Investment Corporations (SIDCs/ SIICs):

The State Industrial Development Corporations are in the forefront of the industrialization in the state. SIDCs/SIICs were established under the Companies Act 1956 as wholly owned undertaking of the state government. They act as a catalyst for industrial development in their respective States.

SIDCs provide land, infrastructure facilities like factory sheds, developed plots, roads, power, water supply, drainage and other amenities.

SIDCs were setup mainly to cater to the financial requirements of medium and large-scale industries. But they also provide assistance to small-scale sector by way of term loan, subscription to equity and promotional services.

2.7.11 State Small Industrial Development Corporations (SSIDCs):

State Small Industrial Development Corporations (SSIDCs) were set up under the Companies Act 1956 as State Government undertakings. They are mainly concerned with the needs of small, tiny and village industries in the State/Union Territories. SSIDCs are operationally flexible and can undertake a variety of activities for the overall development of the SSIs sector. They provide assistance to small-scale sector and act as promotional agencies. The activities of SSIDCs are both assistance oriented and promotional.

Other State level agencies that extend facilities for SSI

promotion include:

- State Infrastructure Development Corporation.
- State Export Corporation.
- State Co-operative Banks.
- Regional Rural Banks.
- Agro Industries Corporations.
- Handloom and Handicraft Corporations. The other agencies are as follows:

2.7.12. National Institute for Entrepreneurship and Small Business Development (NIESBUD):

In 1983, the Ministry of Industry by Government of India established National Institute for Entrepreneurship and Small Business Development (NIESBUD) for entrepreneur development especially in areas of SSIs. Main functions of NIESBUD are:

- Training programmes for entrepreneur
- Arrange seminars
- Undertaking researches
- Developing training as well as teaching aid
- Provide training for women entrepreneur

2.7.13 National Institute of Small Industry Extension and Training (NISIET):

National Institute of Small Industry Extension and Training (NISIET) was set up in the early 1950s at Hyderabad for the training to entrepreneurs, managers, and various development functionaries of State Government, financial

institutions and other agencies.

And other agencies include Technical Consultancy Organizations (TCOs), Non-Governmental Organization (NGOs), Housing and Urban Development Corporation Ltd. (HUDCO), Entrepreneurship Development Institute of India (EDII) etc.

Small Scale Industries are playing a very important role in the overall development of the country. The SSI units in the country are increasing over the years. The Government has also setup various institutions, organizations and supportive infrastructure for the promotion and development of SSIs in the country. The main institutions and organizations are SIDBI, SSI Board, SIDO, NSIC, DICs, SFCs etc. Moreover, the Government has also established industrial estates, industrial areas, growth centers, industrial parks, export processing zones etc. In spite of all these efforts the SSI are facing a lot of problems due to increasing input cost, delayed payments by large scale industries to small scale industries etc. But the major hindrance to the SSIs are getting difficult to tackle the problem of finance, the problem of marketing, problem of technology etc.

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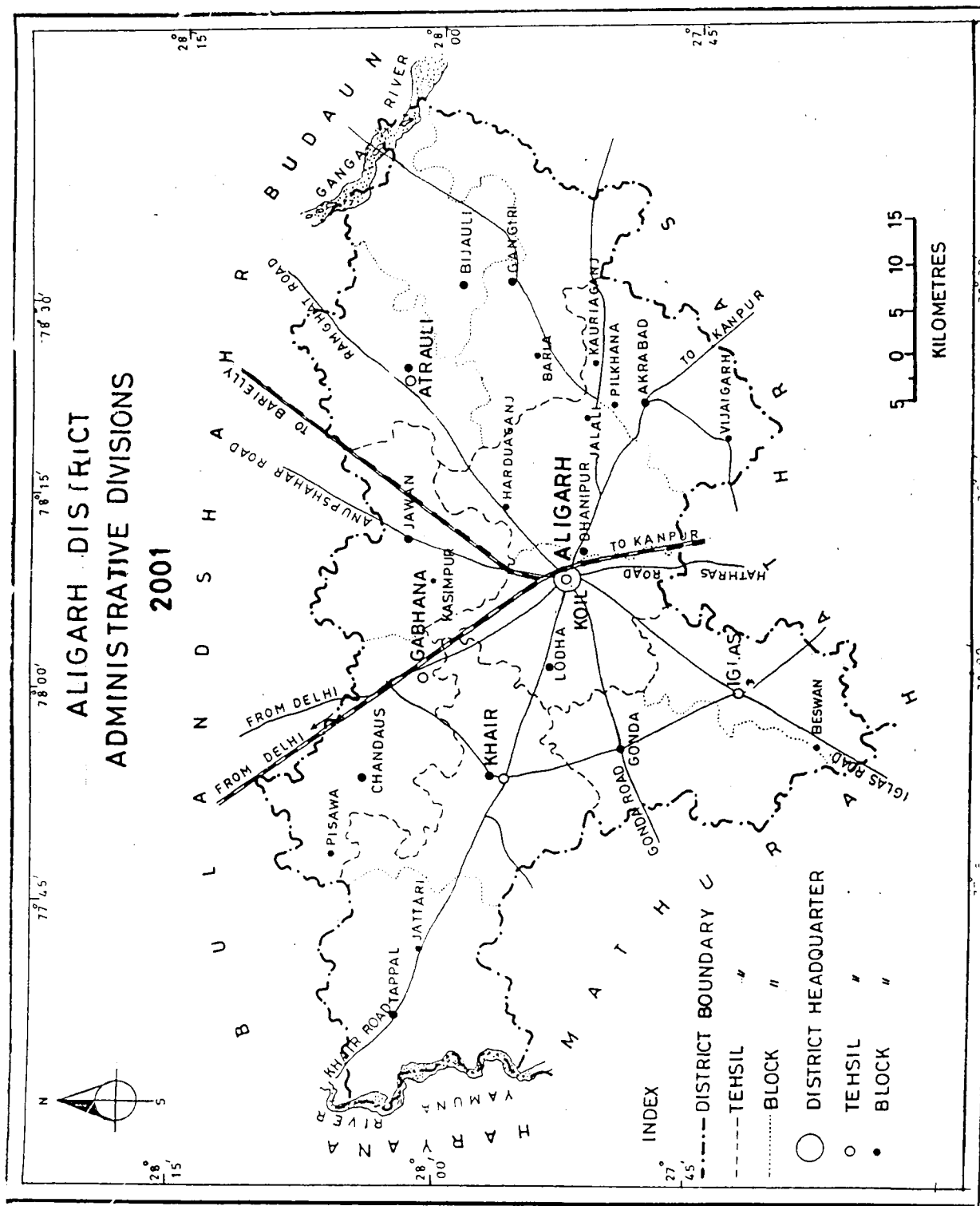


Fig. 2

CHAPTER -3

SOCIO-ECONOMIC PROFILE OF ALIGARH DISTRICT

3.1 General Background of Aligarh

The district Aligarh reflects the influence of both the long Mughal period and relatively brief British periods of domination. Like other cities of India Aligarh is a city of great antiquity, wrapping in its fold many dynasties and their rise and fall. Aligarh is still a regional administrative and commercial center. During the period of British rule it gained an important manufacturing industry known as "Aligarh Locks" which were manufactured largely in small shops and are well known throughout India.

Aligarh is one of the prosperous district, of western Uttar Pradesh. Several factors like agricultural potential, availability of labour, transport system climate etc. has made Aligarh a viable unit for industrial location. Hence in the wake of industrial expansion after Independence, Aligarh district has made a good progress in this field.

3.2 Geography

3. 2.1 Location and Area

Aligarh is one of the important district of Uttar Pradesh. It is located in the western part of the state at a distance of about 126 kms from Delhi. It lies in central heart of Ganga Yamuna Doab. The district comprises the northern most part of Agra division. It is bounded by Bulandshahr district in the North and Mathura district in the South.

The district of Aligarh is spread from 27°29' to 28°11' North latitudes and 72° 38' east longitudes. The greatest width from

east to west is about 116 kms. And the maximum length from North to South is about 2 Kms. The total geographical area of the district is about 5028 sq. kms.

3.3 Parameters of Growth & Development

3.3.1 Population

The total population of the Aligarh district according to 2001 census was 32,95,982 persons comprising 1788880 male and 1507102 females and spread over the area of 37004 sq kms. The density of population is about 350 persons per sq. kms. The rural population of the district is about 2467484 persons (1345184 male and 1122300 females) while urban population is 828498 persons (443696 male and 384802 female). As per 2001 census the schedule caste and schedule tribe population of the district is 758308 persons and 1270 persons respectively.

3.3.2 Agriculture

Aligarh district is located in the fertile agricultural plain of the Ganga Yamuna Doab. Agriculture occupies a prominent place in the district Major crops are Rabi, Kharif, Wheat and Bajra.

Table-3

Amenities in Aligarh District

S. No.	Amenities	No. of inhabited villages	percentage
1	Education	1353	79.31
2	Drinking water	1706	96.1

3	Communication	451	26.4
4	Market	133	7.8
5	Medical	1640	96.1
6	Power supply	1689	99.0
7	Approached by pacca road	1069	62.6

Source: U.P. Gazette

3. 3. 3 Transport & Communications:

Aligarh enjoys the unique position from the point of view of transport. Being an industrial city it has good transport facilities both for rails and roads. It is a centrally located junction of the northern railway having direct connection with various marketing centres such as Delhi, Agra, Kanpur and Calcutta etc.

As far as the roads are concerned the city has a good network of connected well-developed roads. During the last three years, the roads of Aligarh improved tremendously. The district is benefited by three state highways passing through the district i.e. Delhi, Kanpur, Pilibhit-Bharatpur Chandausi, Tahakpur-Kola Road. The total length of road mileage in this category is 207.3 kms. These highways helps in the development of the district. Recently big factories and other industrial establishments have sprung along this road.

In 1985, the total number of post offices in the district was 485 in number and 94 telegraph offices in different parts of

the district. Postal services have enormously increased and it is expected that postal services will further improve in the district in the coming years.

3. 3. 4 Employment Generating Schemes

In the Aligarh district many employment generating schemes have been implemented which have generated enough employment opportunities in the past. Some of them were NREP, TRYSEM, TRDP, SEPUP, PMRY etc. Under SEPUP 2802 persons were benefited from 1993-94 to 1998-99.

From NEPUP 5328 persons got financial assistance from 1994-1995 to 1998-99. Under TRYSEM, 1351 persons were assisted from 1996-97 to 1998-99.

3. 3. 5 Educational Level

The educational level of Aligarh district has steadily increased during the last four decades. In addition to the Aligarh Muslim University there are more than 8 degree colleges, 559 senior basic schools and 1418 junior basic schools in the district. According to table 3.1, in the year 1961 the total literate person including males and females were 341932, the total literate males and females were 282958 and 66174 respectively and the literacy percentage of the total population was only 19.77% which has been increased to 44.9% The percentage of literate females to the total females population was 3.75% and it has raised to 26.8% in 1991. The percentage of total literate male population also increased steadily from 16.3% in 1961 to 59.9% in 1991. The literacy rate of Aligarh district has increased tremendously from the year 1961 to till 1991.

Table 3.1**Educational Level in Aligarh District**

Year	Literate Person			% of Literacy		
	Male	Female	Total	Male	Female	Total
1961	282955	66174	341932	16.3	3.75	19.78
1971	616100	121483	525540	35.1	12.6	24.9
1981	633717	191023	807123	44.0	16.2	31.3
1991	633717	23679	869996	59.9	26.8	44.9

3.3.6 Trade, Commerce and Export

The Aligarh district is well known for manufacturing locks, handloom and khadi cloth, rose water, sugar, pulses, ghee, glass, bottles, beads, wires, perched rice and Ayurvedic medicines. The important imported commodities in Aligarh district are metal, sugar, glass, food-grains, cotton yarn, herbs etc. and exported commodities are locks, khadi cloth, rose water, rice, rope, wheat, brass, wire, mangoes, glass bottles and ayurvedic medicines etc.

3.3.7 Industries

There is a rapid growth of industries in the Aligarh district. Lock industry is the largest and most important industry of the town. In addition to locks other industrial activities are manufacturing of building, fitting materials, electrical equipment, iron foundries, ferrous mines, cutlery, steel furniture, automobile spare parts, brass, glass work etc. The

agro-based industries are also growing in the district such as edible oil, dowry and bakery products, decoration articles, hosiery, readymade garments, carpet industries etc also have a sizeable production. There are about 7134 registered small scale industrial units in the district as a whole out of which 4004 units are located in the city area and the remaining 3130 are scattered in different blocks of Aligarh District.

3.3.8 Banks

There were 213 banks branches in the district at the end of 1988-89 which increased to about 230 in 1998-99. In Aligarh district commercial banks had 113 branches out of which Gramin Bank had 91, Aligarh district co-operative 19, UP cooperative Agriculture and Rural Development Bank and UP Financial Corporation had 1 branch each. Thus, banks/financial institutions has total 230 branches.

Table 3.2

Banks in Aligarh District

S. No.	Name of the bank	Total
1	Commercial Banks	110
2	RRBs	91
3	Co-operatives Banks	28
4	U. P. •Financial Corporation	1
	Total	230

Co-Operatives

There were 203 co-operative societies in 1980-81 and their number went upto 539 in 188-89 recording an increase of 336. The highest number of co-operative societies were in Sikandra Roa Tehsil followed by Atrauli Tehsil.

3.4 Present Scenario of Industrial Sector in Aligarh District

A brief survey of the historical background of SSIs reveals that Aligarh district did not have a large number of SSIs before independence. In order to encourage SSI, the Govt. of UP took up some concrete steps and as such, the Aligarh Industrial Estate was established and also "Talanagri" was set up in 1990 financed by UP Small Scale Industries Development Corporation (UPSSIC) to provide an alternate site for lock manufacturing. The Govt. of UP drew systematic plans to gear up the pace of industrialisation through SSI and the package of incentive gave further impetus to the growth and as such, the number of small scale industries rapidly grew.

Table 3.3 shows the no. of Registered units of Small Scale Industries, Bloc wise in Aligarh district. The main reason of concentration is that "Hathras block" is located on Grand Trunk Road, which is well connected to many parts of Aligarh district as well as outside the district. There is an easy transport facility of raw material and finished products. In other blocks these units vary from 18 in Bijauli to 326 in Iglas depending on availability of raw material, needs of products and means of transport and communication facilities. These industrial units provide large number of employment opportunities.

Table 3.3**Block wise Distribution of SSI units**

S. No.	Name of Block	No. of Units
1.	Akrabad	55
2	Atrauli	268
3	Jawan	23
4	Khair	100
5	Chandausi	31
6	Bijauli	18
7	Dhanipur	46
8	Iglas	326
9	Gangiri	61
10	Gonda	75
11	Hasayan	153
12	Hathras	1173
13	Lodha	64
14	Mursan	140
15	Sasni	251
16	Sikandra Rao	265
17	Tappal	81
	Total	3130

Source: DIC of Aligarh 2001

Table 3.4 shows that SSI units are engaged in different types of activity. It is seen that miscellaneous manufacturing units were the dominant SSI units (32.04%) followed by repairing and services of industries i.e., 27.7%, Hosiery and Garments 23.4%, Food & Craft (7.5%), Metal product (4.69%), wood product (2.15%) and other units like rubber and plastic, chemical product, paper product and printing, transport equipment parts etc. were found to be negligible in existing industries.

Table 3.4

Distribution of SSI Units by the type of activity (Agra Zone)

S. No.	Industries	No. units	%
1	Food & crafts	39	7.63
2	Beverages & Tobacco product		-
3	Cotton textile	-	-
4	Wood, silk and synthetic fibre textile	-	-
5	Jute hemp & mesta textiles	-	-
6	Hosiery and garments	120	23.4%
7	Wood product	11	2.15
8	Paper product & printing	4	.78
9	Leather product	.	-
10	Rubber & plastic product	1	.19

11	Chemical product	5	.97
12	Non-metallic & mineral product	-	-
13	Metal product	24	4.69
14	Basic metal product	-	-
15	Machinery and apparatus	-	-
16	Electrical machine & apparatus	-	-
17	Transport equipment part	1	.19
18	Miscellaneous manufacturing	164	32.04
19	Repairing & services of industries	142	27.78
Total		511	100

Source: DIC report March 2006

Table 3.5 taken from the DIC, if we see the investment then we will find that investment on food craft is Rs. 3.980 crores has the maximum investment followed by wood product (Rs. 0.034 crores), paper product & printing (Rs. 0.034 crores).

Table 3.5

**Distribution of SSI Units according to investment in
Plant & Machinery (Agra Zone)**

S. No.	Industries	Investment Rs. (Crores)
1.	Food & crafts	3.980
2.	Hosiers- & Garment	0.126

3.	Wood product	0.035
4.	Paper product & printing	0.034
5.	Rubber & plastic product	0.100
6.	Chemical products	-0.0530
6.	Metal product	0.2250
7.	Transport equipment	0.0100
8.	Miscellaneous manufacturing	0.289
9.	Repairing & services	0.157
	Total	5.0095

Source: DIC report 2005-06

Table 3.6 shows these product- wise SSI units provide employment opportunity in Agra Zone of Aligarh district. A perusal of table shows that these 511 units provide the employment opportunity to about 2306 workers. The 39 units of food craft provide the employment opportunity to about 206 workers. Maximum no. of workers employed in miscellaneous manufacturing units i.e. 821 workers followed by Hosiery and Garments units where 674 workers are employed. In Rubber 85 plastic and transport equipment units less number of workers are employed i.e., 8 and 6 respectively.

Table 3.6**Employment Opportunities in SSI Units in Aligarh District (Agra Zone)**

S. No.	Name of the Unit	No. of Unit	No. of Workers
1	Food & craft	39	206
2	Hosiery & Garment	120	674
3	Wood product	11	44
4	Paper product & printing	4	29
5	Rubber & plastic product	1	8
6	Chemical product	5	46
7	Metal product	24	148
8	Transport equipment	1	6
9	Miscellaneous manufacture	164	821
10	Repairing and services	142	324
	Total	511	2306

Source: DIC report March 2006

The total SSI & cottage industrial units of different type in the district are 7134 which provide employment to 37484 persons. The table 3.7 shows that the repairing and servicing units are largest in number which is 1001 and these units provide the employment opportunity to 5494 workers. The second important accessories are lock industries. The total

no. of these industries in the district are 959 and these units provide the work to 5665 persons. These two industries that is repairing and services and lock industries combined together constitute about 30% of the total SSI workers in Aligarh district.

The lock industry having 15.15% labour force stand first in giving the employment opportunities to its people. The other significant industries are metal products, hosiery and food product. The metal product industries providing employment to 8.78% of the total workers and occupies third place. The other important industries which provide a considerable employment to the workers and hosiery garments (7.23%), non-metallic products (7.17%), leather industry (6.89%) and food product (6.20%). The other factories which include many SSI unit as medicine and metallic equipment, vegetable ghee, soap factories etc. providing employment opportunities to about 4000 workers or 10.65% of the total work force of Aligarh district. The other industries like food and carpentry, paper printing, chemical product, rubber and plastic, building fittings, machine parts and tools, fitting brass art ware and electric machinery and apparatus are also important industries in the district and they provide employment to about 25% of the total work force.

Table 3.7**Distribution of SSI units according to the employment opportunities in Aligarh district 2005-06**

S. No.	Categories of industries	No. of SSI	Workers employed	%of workers
1	Hosiery and garments	444	2712	7.12
2	Wood and carpentry	366	1828	4.87
3	Paper printing products	121	848	2.26
4	Food product	469	2327	6.20
5	Leather product	575	2574	6.68
6	Chemical product	85	441	1.17
7	Rubber and plastic	101	506	1.35
8	Non-metallic product	539	2689	7.17
9	Metal product	659	3294	8.78
10	Lock industries	959	5665	15.15
11	Building fittings	274	1.359	3.62
12	Brass artware	350	1597	4.30
13	Machinery part and tools	171	848	2.26
14	Electrical machinery and apparatus	258	1295	3.45
15	Repairing services	1050	5494	14.65
16	Others	713	3993	10.65
	Total	7134	37484	100

Source: DIC report 2006

3.5 Suggestion for Future Growth of Small Scale Sector in Aligarh District

There are number of problems which are faced by small scale and cottage industries like problem of finance, raw material etc, which we will discuss in chapter 5. There are some suggestions that can be helpful to solve the problems of these industries and for the location of many new industries as well as in rural areas.

1. The Govt. must give emphasis on the importance of raw material. Proper raw material at cheaper rate will bring cost of production to a low level and will increase the demand. The problem of raw material can be solved by opening raw material bank where raw material should be stored at a time of excess supply and distributed at the time of scarcity.
2. The competition between small scale and large scale industries may be minimized by providing goods & cheap supply of some modern machinery, raw material, finance & other facilities.
3. The process of giving credit to small scale industries should be simplified. So that many new industrial units can be set up in urban and rural areas which provide employment opportunity to many people and the migration from rural area to urban areas in search of job will be reduced. Moreover Govt. may reduce the heavy burden of taxes and excise duty at least for the export products. So small entrepreneurs would get an opportunity to introduce their products in foreign markets.

4. The state Govt. should introduce some training camps of short period in urban as well as rural areas from time to time. This camp should provide technical guidance to manufactures so that they can handle and operate their machinery without any external support. The industries can be established anywhere and they can get the higher degree of satisfaction if a regular planning of utilization of full capacity is there. There will be maximum production and the cost of production will come down if action of modernization is taken, modern scientific management introduced, technicians and workers are trained, market research are undertaken and many other measures are taken for establishing the industry to work in a healthy manner. These measures will increase the number of industries in rural areas and ultimately it will bring stability in rural life and improve the socio-economic condition of rural poor.

CHAPTER – 4

FINANCIAL ASPECTS OF SMALL SCALE SECTOR IN UP AND ALIGARH DISTRICT SPECIFIC INSTITUTIONS, DISTRICT, STATE SUPPORT AND STATE AIDED SPECIFIC SOURCES OF FINANCE

4.1 Introduction

India is predominantly an agricultural country. The proper development of small-scale industries is vital for the healthy growth of our economy.

Village and small industries in their different aspects are an integral and continuing element both in the economic structure and in the scheme of national planning. The main objective of developing small industries in rural is to generate better employment opportunities, raise incomes and standards of living and bring about a more balanced and integrated rural economy. The prevailing scarcity of capital for the promotion of large-scale industries and a plentiful supply of labour favour the development of small-scale industries. Besides, the setting up of small but efficient units of production at suitable locations throughout the country would reduce the cost of transport involved in the haulage of raw materials or finished products of centralized industries. Small-scale industries are also essential for providing subsidiary or alternate occupations and the utilization of local raw materials or catering to local markets.

4.2 Structural Features: Small-scale industries may be classified under three broad categories:

- i) Some industries are started on a small-scale, but

they are likely to develop into medium-sized units within a short time. Like medium scale industries, these are capital-intensive relatively large investment in block assets; and are generally in corporate sector, organized as public or private limited companies or as co-operative societies. In these concerns, borrowed capital is higher than owned capital. These concerns are in an advantageous position to offer adequate security by way of block assets or stocks. They are generally considered credit-worthy for institutional financing. Under this group are the companies, which manufacture, biscuits, paints, pins, oils, automobile spares, etc.

- ii) Under the second category come units started on a small-scale and are likely remain so for a long time in view of the specialized nature of demand for their products. Though specialized types of machines are required by this sector, they don't require any large-scale investment in block assets. Generally, these are organized as non-corporate concerns, partnerships proprietary or joint family concerns. These concerns have little block assets to offer as security, though they maintain sufficient stocks. Units producing agarbatties, bolts, nuts, oil stoves, wire nails, etc., come under this category.
- iii) The third category covers concerns which began as cottage industries but later developed into small-scale industries or a feeder units to large-scale industries. This group, however, forms the smallest segment among the small-scale industries. Such

concerns are mostly organized as proprietary or partnership concerns. Borrowed capital is relatively insignificant in their resources and the availability of institutional finance negligible. Units producing toys, confectionary, coil springs, etc, come under this category. For a developing country like India, the growth of small-scale industries is of great significance. Apart from increased production, the growth of small-scale industries helps to serve as an important milestone in the country's march towards industrial democracy.

4.3 Role of Small-Scale Industries: Small-scale industries play a strategic role in the progress of a country. These industries offer a stage in economic transition from, traditional to modern technology.

Objective: The main objectives of these industries are to create immediate and permanent employment on large-scale, at a relatively small cost, to meet a substantial part of the increased demand for consumer goods and simple producer's goods. Further, these industries are said to offer a method of ensuring a more equitable distribution of the national income and of avoiding some of the problems that unplanned urbanization tends to create.

Small industries are important for national development programmes because they can make a definite contribution to the realization of the central purpose of such a problem i.e., to bring about an efficient utilization of natural, human and capital resources of the country.

It is infact said, that small-scale industries constitute the

backbone of a developing country like, India.

4.4 Financial Needs and Resources of small Industries in Aligarh District – Aligarh apart from being famous for its temple of learning i.e., Aligarh Muslim University is also amongst one of the industrial districts of western U.P. It is famous for its lock and building fitting material industries. The industrial history of Aligarh is a century old.

It was during the 19th century that the Postal Department set-up a laboratory shop with view to repair old and worn out locks and postal seals. Infact, it was the beginning of industrialization. Since then a variety of industrial units have come up. It is a well-known fact that Aligarh district is prominent for several industries. The environment, its location, soil, favourable climate, moderate rainfall during monsoon have all contributed to its steady growth. One of the notable features of the district has been the absorption of most of the technical know-how in industry and commerce. This has been the cause for the diversification of industries mostly at the level of private enterprises.

The district has developed an industrial base capable of producing a large variety of article from what was entirely a lock oriented start.

The industrial base has been enlarged and transformed into a diversified complex.

For the last 25 years, the industrial scene of the district as well as of the state is changing quickly which is a healthy sign of the progress. Progress can even be more impressive in some direction and self-sustaining growth can be ensured.

The emphasis on development of power resources is the most important factor which contributed to the striking growth of industrial and agricultural production in the last two decades.

Due to rapid development in the past 25 years, the rural areas of the district have also become industry conscious. Springing up of textiles and metal industries in different parts like Sasni, Gonda and adjoining areas of Sikandra Rao, Hathras and Atrauli. The new schemes stands for developing a variety of small industries in the district. The lock industry held its way over this district in the early stages after independence. Before 1960, where there was no industrial estate in the district, the working conditions of industrialists and workers were not satisfactory. Labourers from adjoining rural areas used to come to the city for employment.

After considering the industrial potentiality of the district three industrial estates have been set-up each in Aligarh, Hathras and Atrauli.

Since the establishment of industrial estate in 1961, events are, however, changing with the growth of industries and the inflationary tendencies prevailing in the country, several problems have come up which have had an adverse effect on investment and expansion. The impact of non availability of raw materials, increase in the prices of basic requirements, rise in the cost of labour and the production on the economy have arrested the growth of small-units which is to be achieved.

The development of small-scale Industries (SSIs) is slow because of inadequate and delayed supply of credit. So,

finance is the most important input in the industry for meeting various expenses.

“Most of the entrepreneurs of SSIs are economically weak. Therefore, they are poorly placed in the matter of capital formation as they are not in a position to plough back much into the business because of limited profits.”¹

The small-scale sector of U.P. both modern and traditional is in dire need of finance. The people of Aligarh do not have the necessary capital to start a new unit with their own funds and they have to look for other sources of financing their units.

The structure of capital in a SSI unit is simple. “A number of industries start their production without any capital worth mentioning.

Even in cases where there is capital it is invariably contributed by the entrepreneurs or by money borrowed from relatives and shown as capital.”²

However this does not imply that one can run SSI units without capital.

The fixed capital and working capital are two types of capital that are required by SSIs. The fixed capital which are met by long-term loans are needed because for meeting the expenses of acquisition of land and building and installation of plant and machinery whereas the working capital are met by short-term advances need for purchase of raw material and to meet other current expenses such as fuel, wages, marketing and production, etc. The fixed capital requirement are met by state government (under the State Aid to Industries Act/Rule) State Small Industries corporation (SSI Cs), State Industrial

development Corporation (SIDCs), Commercial Bank, National Small Industries Corporation (NSICs), State Industrial Investment Corporation, Cooperate Banks, Indigenous Bank and money lenders. The working capital is mainly provided by commercial banks.

If we discuss directly about the credit of SSI sector, at the end of March 2005, 536 specialised SSI branches of commercial bank were operational. The credit outstanding by Public Sector Banks (PSBs) to SSIs stood at Rs. 67, 634 crore at the end of March 2005. PSBs were advised to operationalised at least one specialized SSIs branch in every district and center having cluster of SSI units. The credit outstanding of private Banks to SSIs stood at Rs. 8,668 crore as at the end of March 2005 but their share in Net Bank credit has come down. Foreign Bank credit to SSIs stood at Rs. 6, 914 crores at the year ended March 2005. The flow of credit to SSI sector by public, private sector and foreign bank is given below:-

Table 4.1

Flow of credit to SSIs by Public, Private and Foreign Banks in the year 2005.

Banks	Amount (Crore)	% share of NBC*
Public Sector Banks	67, 634	9.4
Indian Pvt. Banks	8,668	5.4
Foreign Banks	6,914	10.3

Source: RBI reports on Trends and Progress of Banking in India, 2004-2005.

* **NBC** – Net Bank Credit

4.4.1: Sources of Financing of SSIs in Aligarh District

The various financial institutions meet the financial requirements of small scale industries in U.P. Almost all the banks and financial institutions are working in U.P. and provide financial assistance to SSI units, commercial Banks, U.P. financial corporations (UPFC), National Small Industries Corporation (NSIC), U.P. Small Industrial Corporation etc, are providing direct financial help. Lead Bank also provides financial assistance to SSIs in U.P.

For the development of the micro, small and medium entrepreneurs there are various institution and organizations, which are promoted by the Central Government and State Government. Some of the sources of financing SSI are as –

i) U.P. Financial Corporation:

State Financial Corporation (SFC) was established under the central Act, viz, the state Financial Corporation. Act, 1951 with the basic objective of promoting and developing small-scale industry in the state with a special focus on spreading industrial culture in the rural, semi-urban and backward areas of the state. U.P. Financial Corporations caters to the requirement of the entrepreneurs. It provides term loan to small and medium scale industry for creation of assets, viz, land, buildings and machinery. It provides working capital term loan to the industrial units on competitive terms.

The corporation also provides non-fund based services like merchant banking, underwriting of public issues, project counselling, bill discounting, lending and hire purchase. It is operating a number of financial assistance schemes for the

benefit of entrepreneurs such as assistance for marketing activities equipment finance, special schemes for assistance to ex-service men, single window scheme etc.

U.P. Financial Corporation provides maximum loan up to Rs. 200 lakhs. The interest on loan ranges between 13.75% to 16% depending upon size of the loan and term.

ii) U.P. Industrial Development Corporation (UPIDCs):

State Industrial Development Corporations were established under the companies Act 1956 as wholly owned undertaking of the State Governments. UPIDCs provide assistance to small-scale sector by way of term loan, subscription to equity and promotional services.

iii) U.P. Industrial Investment Corporations (UPIICs)

Under the companies Act of 1956 the State Industrial Investment Corporations were established. SIICs also provide assistance for the development of SSIs sector of U.P.

iv) National Small Industries Corporations: The National Small Industries Corporations, a Government of India undertaking, has been set-up with the specific objective of developing small industries in the country. It aids development of small scale industries supply to the party on hire purchase terms. Machines, both foreign and indigenous can be obtained from this source on a security deposit ranging upto 20% of the cost of the machines.

Apart from these National and state level institutions, there are various exclusive agencies, which assist the growth of the small-scale industries of the state. Prominent among them are the State Small Industries Development Corporations

(SSIDC), District Industries Centre (DIC), etc. The various terms of assistance rendered by SSIDCs and DIC to the SSI sector of the U.P. are:

- a) Supply of machinery on higher purchase basis;
 - b) Procurement and distribution of raw materials;
 - c) Securing contracts from Government stores/
Purchasing agencies;
 - d) Provision of technical and consultancy services;
 - e) Marketing assistance etc.
- v) Commercial Banks: Commercial banks are playing a significant role in allocation of credit to various sectors including SSI sector. The commercial banks have indeed formed the backbone of the financial system in the country. These banks can be broadly divided into three categories viz, public sector banks, private sector banks and foreign banks and have also been playing a dominant role in the mobilization of public savings and credit to various sectors of the economy.

Commercial banks were advised to make concerned efforts to provide credit cover, on an average to atleast 5 new tiny, small and medium enterprises at each of their semi urban/urban branches every year. They were further advised to formulate a comprehensive and more liberal policy relating to advances to SME sector.

In U.P. commercial banks are playing an important role in the deployment of credit to various sector including SSI sector. As far as district Aligarh is concerned some of the commercial banks provide financial assistance to small scale

sector of Aligarh District. These banks include Aligarh Gramin Bank, Canara Bank and State Bank of India.

- a) Aligarh Gramin Bank: In Aligarh, Aligarh Gramin Bank provides financial assistance to SSIs of Aligarh District for the development of SSIs. This bank provides short term loan to small farmers and entrepreneurs for setting up of unit.
- b) Canara Bank, the lead bank, started functioning in Aligarh District by opening its first branch on 12th April 1971. Under the lead bank scheme this bank was allotted 18 districts in U.P. including, Agra, Etah and Aligarh. Its two fold objectives in the district were massive mobilization of rural deposits and stepping up of banks lending to the weaker sections in the district.
- c) State Bank of India (SBI): Recently state Bank of India (SBI) started an Equity fund scheme for small scale industry to assist entrepreneurs setting up new small scale industrial units in need of equity support though interest free loans repayable on soft terms. The entrepreneurs eligible for assistance are those financial units under the banks. Entrepreneurs scheme and other educated person who under go training under the entrepreneurs development programme are eligible for credit guarantee cover of DICs. Assistance under the schemes given by the way of interest free loans to the maximum of 25% of the total cost of the scheme which should not be less than Rs 25000. Preference is given to units in western U.P areas, export oriented units, tiny sector units in rural areas and units producing import substitute items.

- d) **Regional Rural Banks:** Regional Rural Banks (RRBs) were established since 1976 under the provisions of the Regional Rural Banks ACT, 1975 with a view to develop the rural economy as well as to create an alternative channel to co-operative credit structure in order to ensure sufficient institutional credit for rural and agriculture sector. These banks were also intended to mobilize rural savings and channelize them for supporting the productive activities in the rural areas.

Besides, having these banks there are some schemes, which are introduced by the R.B.I for the development of SSI units.

Reserve Bank of India Guidelines For SSI Lending:

The R.B.I has prepared a consolidated set of guidelines for SSI sector lending. Finance provided to SSI falls into two categories.

- (i) Direct finance provided to SSI units and
- (ii) Indirect finance provided to industrial units.

Direct Finance To The Categories Of SSI Is Included:

- A) Artisans (irrespective of their locations)
- B) Cottage / village industries in villages and small towns with a population not exceeding 50,000 persons involving utilization of locally available natural resources and / or human skills where individual credit requirements do not exceed Rs 25000.
- C) Other small scale industries that are engaged in manufacture, processing and preservation of goods.

Indirect Finance To Small-Scale Industry Sector Included:

- a) Credit to government sponsored corporation organization providing the funds to the weaker sectors in the priority sector and
- b) Loan for setting up industrial estate margin money.

4.4.2 Role of Canara Bank, the Lead Banks, in financing small scale industries(SSi):

Aligarh district endowed with rich natural resources, with industrious and progressive nature of the farmers, was allotted to Canara Bank where it had been entrusted with all the responsibilities of a lead bank.

Responsibilities of Canara Bank as Lead Bank of the Aligarh District:

Canara Bank has to shoulder the following responsibilities as lead Bank of the district:-

1. It shall be responsible for carrying out all the responsibility entrusted to the bank under the lead Bank scheme.
2. Will function as a pivotal point between the bank branches functioning in the districts on one hand and government officials in the district and blocks on the other Lead Bank should integrate the activities of different agencies engaged in the developmental task of the district.
3. To convene district consultative committee and standing committee meeting. To record minutes of these meetings and take proper following up actions on

the decisions taken in the meetings.

4. To prepare periodically a review of performance of various participating institutions and present the same before DCC/ standing committee meetings. This review will provide information on implementation of DCP, deposit, advances, priority sector advances, DRI advance and details of performance under various government sponsored scheme.
5. Will effectively monitor the implementation of District Credit Plan and take such steps as necessary to collect the required information from participating agencies. To resolve the problem in implementation of District Credit Plan by taking up the matter first at district level and if not solved then at the state level, regional level etc.
6. To formulate District Credit Plan/ Annual Action Plan etc., as per the guidelines issued by R.B.I.
7. Reserve Bank of India's Rules and Regulation for lead Bank Schemes:
 - i) Reserve Bank of India has appointed Lead District Officer to ensure that the District Consultative meeting/ Standing Committee meeting etc., are conducted at regular intervals. One lead District Officer has been allotted to 3 or 4 districts.
 - ii) Lead District Officer should ensure his participation in all the DDC/ standing committee meetings. This creates a sense of awareness among participation agencies under lead Bank scheme.

- iii) Lead District Officer should ensure that all the policies / guidelines issued by R.B.I are properly understood and followed by various participating agencies.
- iv) Should ensure that various returns introduced by R.B.I. on implementation of District Credit Plan are submitted by participating banks well in time to R.B.I. with copy to lead Bank.
- v) Keep a Liaison with banks and government functionaries in the district.

Canara Bank's founding Principles:

- 1. To remove superstitions and ignorance.
- 2. To spread education amongst all.
- 3. To inculcate the habit of thrift and saving.
- 4. To transform the financial institution not only as the financial heart of the community but social heart as well.
- 5. To assist the needy
- 6. To work with the sense of service and dedication.
- 7. To develop concern for fellow human beings and sensitively to the surroundings.

4.5 Importance of Canara Bank, Lead Bank, as a source of financing Small Scale industries:

Canara Bank as a specific institution in Aligarh District Guarantees various loan Schemes.⁴

- Priority sector loan scheme Agriculture and Rural Credit

- Kisan Credit.
- Loans for setting up agricultural clinic.
- Minor irrigation loans
 - Farm machinery loans
 - Farm development loans
 - Vehicle loans for agriculturists
 - Loans for plantation crops
 - Loans for marine fisheries
 - Loans for inland fisheries
 - Loans for sericulture
 - Loans for purchasing agricultural land
- Export credit for agricultural Products
- Other Agricultural Schemes

Loan for S.SIs.

- Other Priority Sector Loan
- Governmental Sponsored Schemes.
- Lead Bank Activities
- Agricultural Consultancy services

4.5.1 Loans to small scale Industries:-

Finance/ Credit to small Industrial unit

A person emerging as an entrepreneur or engaged in any small scale activities to that particular person.

Those who are eligible to apply for loan from the lead Bank, i.e., Canara Bank are Individuals/ proprietorship/

partnership/ corporate/ Association of persons/ society/
Trust or S.H.G.

[SOC] Simplified open cash credit.

This is a liberalized credit facility to SSIs entrepreneurs who are incapable to maintain detailed books

Purpose: For working capital needs of small scale industrial units. Facility available as running limit.

Maximum Limit: Rs. 5 Lakh only

Security: Prime security – Assets created out of the credit facility. Collateral security – Fixed assets of the unit wherever applicable.

Repayment: Facility is permitted as running limit subject to review/ renewal every year.

Guarantee Cover: Cover under credit Guarantee Fund for small industries CGFSI would be available.

[OCC] Open cash Credit Scheme: A running credit facility to small scale industrial entrepreneurs against stock and receivables.

Purpose: For working capital needs of small scale units

Assessment of Limit: Depending on the working capital requirement of the unit assessed as per turn over method/ MPBF system/ Cash Budget System.

Drawing from the account shall be against drawing limit arrived based on stocks such as raw materials, work in process, finished goods and receivables.

Whatever required, overdraft against book debts (ODBD) is also permitted against book debts of specific age arising out

of general trade transactions with Government/ Public sector undertakings/ Joint Stock Companies/ Firms of Reputation.

Security: Prime security – stocks, receivables.

Collateral Security: Land and building, plant and machinery plus guarantee shall be obtained wherever applicable.

Repayment: Since the limit is permitted as running limit, the limit is renewable every year subject to review.

Guarantee Cover: Cover under credit Guarantee Fund for small industries (CGFSI) in case the aggregate credit facility permitted is upto Rs. 25 lakhs.

[Term Loans]

Eligibility: Individuals, Proprietorship, Partnership Ltd., Companies etc.

Purpose: For acquisition of fixed assets (i.e., land) building plant/ machinery/ other fixed assets/ towards setting up of diversification incase of existing units.

Quantum: Depending on the project cost.

Repayment: 36 months and above in a monthly/ quarterly/ half yearly/ yearly installments depending on the cash generation and debt servicing capacity.

Security: First charge on fixed assets financial by us. Collateral security and personalized. Third party guarantee shall be inverted wherever required.

(Composite Loan Scheme)

A simplified scheme devised under single window concept of R.B.I. to suit the requirements of tiny units under S.SI Sector.

Purpose: For acquiring equipments/ construction of work-sheds and to meet working capital needs of the unit.

Eligibility: Artisans/ village and cottage industries engaged in manufacturing/ processing/ preservation and servicing/ by utilizing locally available natural resources and or human skills where individual credit limit does not exceed Rs. 25 lakhs. Tiny units under SSI sector irrespective of their location and whose investment in plant and machinery does not exceed Rs. 20 lakhs/ whose investment in plant and machinery does not exceed Rs. 25 lakhs.

Loans Amount: Maximum Rs. 25 lakhs

Security: Prime security – Assets created out of the credit facility. Collateral security – Nil, upto Rs. 5 lakhs. For loans over Rs. 5 lakhs and as determined by bank on merits.

Repayment: Repayment within 3 to 10 years including initial moratorium of 12 to 18 months.

Guarantee Cover: Cover under Credit Guarantee for SIs would be available.

[Margin Money Scheme]

Loans under margin money scheme of Khadi village industries commission under Rural Employment generation programme. It is a scheme devised for setting up industrial units.

Eligibility: Individuals/ Proprietor Firms/ societies/ Trusts, SH.Gs (Self Help Groups)/ Companies registered under companies Act and substantially owned and controlled by central Govt./ Micro Finance Institutions (M.F.Is) and NGOs. Partnership Firms and Private Companies are not eligible.

Project Cost: Not to exceed Rs. 25 lakhs

Loan Amount: General category beneficiaries upto 90% of the project cost/ weaker section beneficiaries/ Institutions upto 25% of the project cost.

Margin: General Category beneficiaries 10% of the project cost/ weaker section beneficiaries 5% of the project cost.

Margin Money from KV/L: General category beneficiaries 25% of the project cost upto Rs. 10 lakh and additional 10% whose project cost exceeds Rs. 10 Lacks.

Security: Prime security – assets created out of the credit.

Collateral security – Nil upto Rs. 5 lakh for loans over Rs. 5 Lakhs as determined by banks on merit.

Repayment: Repayable within 3 to 5 years.

Guarantee Cover: Under Credit Guarantee fund for small industries would be available

Documents: This is apart from the normal applications submitted to banks for credit facility.

- Photograph duly affixed to the loan application.
- Copy of the project report
- Copy of the certificate issued by the appropriate authority in regard to weaker section beneficiary.

[National Equity Fund Schemes of SIDBI (soft loan assistance)]

Equity type of loan assistance by SIDBI for S.SI units.

Eligibility: New projects existing units under small scale

sector/service enterprises.

Project cost: Not exceeding Rs. 25 lakhs in case of existing units/ service sector.

Production Contribution: Minimum 10% of project cost.

Debt Equity Ratio: 65:35 (excluding state investment subsidy)

Quantum of Assistance of Soft Loan under Scheme: Amount of capital in equity as per prescribed Debt Equity Ratio after taking into account production contribution to the extent of 25% of the project cost subject to a maximum of Rs. 10 Lakhs

Interest on Soft Loan: Nil

Repayment of Soft Loan: Soft Loan is repayable in 7 years in time with the repayment period of normal term loan permitted by bank for the project. Now repayment of soft loan would attract interest as stipulated by SIDBI.

Security of Soft Loan: Nil

[Mahila Udyam Nidhi Scheme(MUN)]

It is a Soft Loan Assistance: Equity type soft loan assistance from SIDBI exclusively for women entrepreneurs for setting up industrial units in the small scale sector and tiny sector and undertaking service activities.

Eligibility: New projects/ existing units under tiny/ small scale sector service enterprises.

Project cost: Not exceeding Rs. 10 Lakhs incase of new project (including working capital) and incase of existing units for undertaking expansion/ modernisation,

diversification/ Re-habilitation.

Quantum of Soft Loan Assistance: Upto 25% of the project cost with a ceiling of Rs. 2.50 lakhs per project.

Promoters Contribution: 10% of the Project cost.

Service Charges: 1% of equity assistance

Repayment: within 10 yrs. including initial moratorium of 5 yrs. The repayment of soft loan would be co-terminus with the term loan granted for the project by bank. Non repayment of soft loan installments would attract interest as stipulated by SIDBI

Security: Nil

[Technology Upgradation Fund Scheme] (TUFS) for textile or Jute industries in S.SI sector.

(TUFS) for textile or Jute industries in S.SI sector.

A scheme devised by Government of India, Ministry of Textiles to enable SSI units to induct state the art of technologies in which technological levels are bench marked in terms of specified machinery for each sector of textile industry. Machinery with technological levels lower than that specified will not be permitted for funding under the TUF scheme.

Eligible Borrowers: Sole proprietor/ partnership co-operative societies, Private/ Public Ltd. Companies.

- a) Existing units with or without expansion and new units.
- b) Existing units proposing to modernize and/ or expansion with state of the art tech.

- c) New units which are being set-up with appropriate tech.

Quantum of Loan and Mode of Assistance: Assistance shall be need based and no ceiling on project cost/ amount of loan assistance shall be by way of term loan.

Margin: 15-25% of the project cost.

Security: First charge on fixed assets financial under the scheme. Additional security such as personal guarantees, pledge of promoters share holdings as determined by Bank on merits of the case.

Incentives available under the scheme: Interest reimbursement at the rate of 5% of the interest payment made by the unit to bank on the loan outstanding. No interest reimbursement will be available for the extended period of loan during the Non-performing Assets of the loan.

Repayment – Within 7 years including moratorium upto 1 year

[Credit Linked Capital Subsidy Scheme] (CLCSS) for technological upgradation in specified industries under SSI. The scheme is as per the guidelines of Ministry of SSI & ARI, Govt. of India to enable to SSI units in 14 specified industries for inducing state of the art-technology with a view to improve productivity and to bring improvement in the quality of product and/ or to improve environmental conditions etc. The scheme terminates by September 2005.

Eligible borrowers: Sole proprietor/ Partnership Co-operative society/ Pvt. Public Ltd. Companies. Existing units registered with state Directorate of Industries, proposing to upgrade the

state of art technology with the state Directorate of Industries which set-up their facilities only with appropriate and preventive technology duly approved by Governing & Technical Advisory Board (GTAB).

Incentive available: 12% capital subsidy under the scheme, only for such projects where term loans have been availed from bank and the same is subject to ceilings specified under the scheme.

Products/ Sub Sectors covered under the scheme:

1. Leather and leather products including footwear and garments.
2. Food processing including ice cream manufacturing
3. Information technology (hardware)
4. Drugs and pharmaceuticals
5. Electrical industry particularly relating to design and measuring.
6. Glass ceramic items including tiles.
7. Auto parts and components
8. Dyes of Intermediateness
9. Toys including making of board games, puzzles and educational toys.
10. Tyres
11. Hand tools
12. Fruits
13. Foundries – ferrous and non-ferrous
14. Stone industry including marble and mining industry.

[Loan Scheme for Acquisition of ISO 9000 series Certification]

The Scheme is devised for financing SSI clients of the bank to acquire ISO series certification in the back drop of requirement of maintaining quality of service and customer satisfaction.

Eligible Norms: Existing SSI clients having dealings with banks for atleast 4 years. There should be profit and enjoying minimum working capital facility of Rs 20 Lakhs from the bank. Unit should not have defaulted to bank or F.I. in payment of dues.

Purpose: Facility is for acquiring, testing equipment and to meet the expenditure on account of consultancy, documentation, audit, certification fee etc.

Project Cost: Rs. 4 Lakhs

Quantum of Finance: 50% - 75% of the project cost, subject to maximum of Rs. 2.50 lakhs

Margin: 25%-50% the cost of Project

Rate of Interest – PLR of the bank for short-term loan. PTR of the bank for term loan.

Repayment: within 3-5 years

Security: Prime security – Assets created out of loan

Collateral Security – Approved created and unchambered fixed assets of the unit for clarification of the loans.

Personal Guarantee – of partners/ directors or the case may be.

[Export Finance Series]

These also offer the following export finance facilities to SSI units who undertake or are desirous of undertaking export business –

1- Pre shipment Finance

- a) Packing credit (PC)
- b) Clear Packing Credit (CPC)
- c) Pre-shipment credit in financing currency (PCFC)

2- Post Shipment Finance

- a) FDB
- b) FBE/BRD

3- Foreign Bank Guarantee (FBG) Including Deferred payment in foreign currency for import of capital goods (subject to FEMA and RBI guidelines).

4- Foreign Loan of Credit: Both for import of raw materials capital goods, etc. (subject to FEMA and RBI guidelines).

[Other Priority Sector Loan Schemes Loans for Small Business]

Purpose: For meeting the working capital/ term loan requirement.

Who all are eligible?

Individuals or firms managing a business enterprise for providing any service other than professional services whose aggregate credit does not exceed Rs. 20 Lakh.

Margin: Nil. For limits upto Rs. 25000.

For limits above Rs 25000 15-25% or as per scale of finance

Security: For limits upto Rs 25000 hypothecation of assets created out of the bank loan. For limits above Rs. 25000

i) Hypothecation of assets created out of bank loan.

ii) Collateral security, guarantee of third person.

Repayment: Maximum 7 years depending on the purpose of loans.

Source: Homepage Website: <http://canbankindia.com>

4.6 State support and State Aided Sources of Finance

4.6.1 Institutional Support, Assistance and Incentives:⁵

The support system can be classified into two categories: those administered by the Central Government, and those by the state governments. At the center, the office of the Development Commissioner, SSIs known also as the Small Industries Development Organization (SIDO), which is an organ of the Ministry of Small Scale Agro and Rural Industries (SSARIs), Government of India is the apex body to formulate the development policy and support system for this sector. Under the office, there are 30 small Industries Service Institutes (SISIs) and 28 branches of SISIs which undertake techno-economic and managerial consultancies, disseminate trade and market information, undertake surveys, conduct training in various trades/ activities and provide workshop facilities. In addition, there are 4 testing centers, 10 tools rooms/ tools design institutes, 6 product-cum-process development centers and central footwear training centers for providing modern technical facilities and training in the areas as their names suggest.

In addition to training provided by the above institutes there are exclusive institutes namely, National Institute for small Business Development (NIESBUD), New Delhi and Indian Institute of Entrepreneurship, Guwahati, which conduct entrepreneurship development programmes at national and international levels in particular mentioned is the Indian Institute of Entrepreneurship at Guwahati which caters to the training requirements of the north-eastern part of the country.

The National Small Industries Corporation (NSIC) created in 1954 along with SIDO, and Autonomous body under the Ministry of SSI. It provides machinery under hire-purchase and equipment leasing scheme, marketing support under consortia marketing, procurement of bulk orders, brand franchising, technology assistance, development and training activities etc. It also operates several schemes of export promotion.

In the state governments, the Directorate of Industries are the nodal agencies to promote the small scale sector. At the district level, District Industries centers are envisaged as a single window interacting agency to provide services and support to small entrepreneur under a single roof. They are the implementing arm of the central and state governments of the various schemes and programmes and also Registration of small industries centers. Central and state governments have evolved a substantial structure of incentives and facilities for small enterprises. Apart from various facilities and incentives extended by the central Government which have been mentioned in the foregoing paragraphs, the most important and meaningful support to

SSI is that of fiscal support.

4.6.2 Role of State Governments/ Union Territories

Promotion and development of SSI is primarily the responsibility of the State Governments. The support and facilities offered by the state governments include land, developed plots and sheds on concessional terms, infra-structural facilities, investment subsidy in selected areas at varying rates, seed capital for setting up new units, financial assistance for preparation of project reports, assistance in purchase and marketing, subsidy for technical know-how, testing of products in approved test houses and modernization, subsidy in power and generating sets, water at concessional terms, interest subsidy, exemption/deferment on sales tax, stamp duty, etc. Monitoring cells/ Committees for rehabilitation of sick units also exist at the state level.

The state level Inter-institutional committees which exist under the chairmanship of State Secretary Industries have been playing important role in the rehabilitation of sick SSI units. State Level Bankers Committee (SLBC) also plays an important role in assessing and co-ordinating the credit needs of the state including those for the small enterprises.

4.6.3. Problems of Long term, medium term and short term Finance.

S.SI units are entitled for priority sector lending from the nationalized commercial banks on the pattern of agriculture. Out of 40% of bank advances earmarked as priority sector lending about 15 to 17% have been flowing to SSI sector. Out of priority sector credit going to small scale sector 40% is

earmarked for tiny units whose investment in plant and machinery ranges between Rs. 5 Lakhs to Rs. 2 Lakhs are governed by Prime Lending Rate and the commercial credit worthiness of the unit.²

Initiative for Credit:

In order to ensure adequate and timely credit to the SSIs, Reserve Bank of India had set up Nayak Committee in 1991. The committee submitted its report in 1992 which recommended, inter alia, that commercial banks may provide working capital to SSI units worked out of the rate of 20% of their annual turn-over subject to limit of Rs. 1 crore. The limit of working capital has since been raised to Rs. 5 crores.

Upto March 1999, 386 specialized SSI bank branches all over the country have been operationalised with a view to provide focused attention and increase the flow of credit to SSI sector.

Banks have been further advised to increase the number of SSI branches. 370 specialised SSI branches opened up in 1997-98 and 16 more branches have been opened during 1998-99.

The composite loan scheme of SIDBI has been modified and ceiling limit increased from Rs. 2 Lakhs to Rs. 5 lakhs. This would facilitate easier availability of credit to the tiny sector.

In the credit policy measures announced for second half of 1997-98, it had been stipulated that with a view to ensuring prompt settlement of dues of SSI units, as also encouraging bills culture, banks were advised to ensure that with effect from January 1, 1998 of the total in land credit purchase of borrowers, not less than 25% should be through bills drawn

on them by concerned sellers.

SSI units are often handicapped by delays in the settlement of their dues from large companies. To tackle this problem, RBI is being asked to strengthen the existing mechanisms available to SSI for discounting of bills. RBI will also modify its guidelines to commercial banks on credit appraisal to overdue outstandings that large units have in respect of SSI suppliers.

RBI had appointed a one man committee under the chairmanship of former Secretary, Department of small scale Industries and agro and Rural Industries, Government of India, to look into various problems regarding credit flow to SSI sector and suggest appropriate measures for their redressal. The committee has submitted its report to RBI on June 30, 1998. The committee has made as many as 126 recommendations covering various aspects relating to the SSI sector. These recommendations are being examined by RBI. RBI has decided to accept 40 recommendations.

Credit Flow:

Credit is the prime input for sustained growth of small scale sector and its availability continues to be a matter of concern. Credit provided for creation of fixed assets like land, building, plant and machinery is called long term credit. Credit provided for running the industry for its day to day requirement for purchasing raw material and other inputs like electricity and water etc. and for payment of wages and salaries is called short term credit or working capital.

Institutional Arrangement:

Small Scale Industrial sector is provided working capital by

commercial banks and in some cases by cooperative banks and regional rural banks. Term loans are provided by State Financial Corporation (SFCs), small Industries Development Corporations (SIDCs), National Small Industries Corp. (NSIC) and National Bank for Agriculture and Rural Development (BAVAR).

Financial Assistance from NSIC and to some extent from SIDCs is available in the form of supply of machinery on hire purchase basis/ deferred payment basis. Small sized SSI and tiny units also get some term loans from commercial banks along with working capital in the form of composite loans.

Refinance to these institutions is provided by the small industries Development Bank of India (SIDBI). Such refinance comprises assistance provided to state Financial Corporation Bills, Finance Scheme, Special Capital/ Seed Capital Scheme, new debt instruments and to National Small Industries Corporation. Long term loans are provided to the small scale industrial units by SFCs mainly through Single Window Scheme and National Equity Fund as also direct assistance provided to State Financial Corporations in the form of refinance. Some part of working capital for pre-operative expenses is also provided by State Financial Corporations to Small Scale Industrial Units under the Single Window Scheme.

Credit to SSI Sector from Public Sector Banks:

The table below gives the position with regard to flow of credit to SSI sector.

Table – 4.2

	At the end of March 1995	At the end of March 1996	At the end of March 1997	At the end of March 1998	At the end of March 1999
Net Bank Credit	1,69,038	1,84,381	1,89,684	2,18,219	2,46,203
Credit to SSI	25,843	29,485	31,542	38,109	42,674
No. of SSI Account (in lakhs)	32.25	33.77	N.A.	29.64	N.A.
SSI Credit as percentage of Net Bank Credit	15.29	15.99	16.6	17.5	17.33

This is a marginal decline in share of credit to SSI sector as a percentage of net bank credit.

Source: *Economic Survey 2006-2007.*

Credit to Tiny Sector:

The table below gives the status of credit flow to tiny sector since 1995:

Table – 4.3

	At the end of March 1995	At the end of March 1996	At the end of March 1997	At the end of March 1998
Net Credit to Tiny Sector	7734	8183	9515	10273.13
Tiny credit as percentage of net SSI credit	29.93	27.76	30.2	27.0

The advances outstanding against Tiny sector increased from

Rs. 9515 crores at the end of March, 1997 to Rs. 10273 crores at the end of March 1998. the share of tiny sector in the advances to SSI sector has, however, decreased from 30.2% at the end of March 1997 to 27.0% at the end of March, 1998. As per RBI guidelines 40% priority sector lending going to SSI has to go to tiny units with investment in plant and machinery below Rs. 5 lakhs and another 20% to tiny units with investment in plant and machinery between Rs. 5 lakhs and Rs. 25 lakhs. Thus against the target of 60% of SSI credit for tiny units, actual flow at 27% is very low.

4.7 Arguments for Small-Scale Industries

Ever since the announcement of the Industrial Policy Resolution of 1948, small-scale industries have occupied a prominent place in the overall strategy of industrial development in India. Successive five year plans have allocated increasing resources for the development of small industries. In view of the abundance of labour, scarcity of capital, and rural nature of the economy, the preference for small industries is natural. The arguments in favour of small industries are the following:

a) High Employment Potential:

Small-scale industries provide maximum employment only to the agricultural sector. Small industries are generally labour industries and therefore promise wider employment possibilities for the ever increasing population of India. They are also suitable as a supplementary source of employment for the Indian farmers who remain out of work during lean period agricultural season. Small industries offer promising

opportunities to educated unemployed in the urban areas to become self-employed gainfully.

b) Widely Dispersed Entrepreneurial Base

On the eve of independence, industries in India were located at certain selected places and were managed by a few communities. The Directive principles of Indian constitution prohibit the concentration of economic power in few hands. Small industries ensure widest possible participation by different regions and different classes in the industrial growth of the country. These industries can be set up easily in any part of the country with modest skills and resources.

c) Relatively Low Capital Investment:

One chief criticism of the pattern of industrial development of the last five decades is the undue emphasis on capital-intensive large scale industries. It is probably due to this wrong policy that the industrial sector has not been able to generate sufficient employment for the massive work force. Small industries require low capital investment and that too in indigenously produced machines, tools and implement:

d) Regional Balanced Development:

Balanced development of all the regions of the country is an accepted objective of India's Five Year Plans. Many districts of the country, particularly in tribal and hilly areas have remained industrially undeveloped as compared to other regions of the country. Therefore, these areas can be developed through a network of

cottage and small industries.

e) Export Potential

Small industries roughly account for one third of the value of total exports of India. In view of the chronic balance of payments crisis, it is all the more urgent to boost the exports of small industries which find ready market in foreign countries.

In short, small industries constitute an important segment of the Indian economy. The performance of this sector in recent years is shown in the Table 4.1

Table 4.4

Importance and Recent Performance of Small-Scale Enterprises in India:

Year	Number of Units (Lakhs)			Prod.(Rs. Crore)		Employment Exports	
						Lakh	Rs. (Crore)
	Regd	Unregd	Total	At current Prices	At 1993-94 prices		
2000-01	13.10	88.00	101.10	2,61,289	1,84,401	239.09	69,797
2001-02	13.75	91.46	105.21	2,82,270	1,95,613	249.09	71,244
2002-03	14.68	94.81	109.49	3,11,993	2,10,636	260.13	86,013
2003-04	15.54	98.41	113.95	5,57,733	2,28,730	271.36	97,644
2004-05	16.57	102.02	118.59	4,18,263	2,51,511	282.91	NA

Source: Government of India, Economic Survey 2005-06, table 7.22, p.151.

4.8 **Problems of Small Industries:**

Small industries, being an important one, face a number of problems which have resulted in their retarded growth.

- (i) **Technological obsolescence:** The technique of production used in many small industries like weaving and wood carving is obsolete. This has led to high production cost and output of inferior quality goods. Hence, modernization of technology is urgently required to make small industries efficient.
- (ii) **Inadequate and Irregular Supply of Raw Material:** Small and cottage industries generally depend on local sources of raw material. They have to purchase raw-material in small quantities and also on credit. Apparently, they cannot compete with large-scale industries in the procurement of raw material. Quite often, small industries have to pay a higher price for inputs and suffer uncertainty in their procurement.
- (iii) **Imperfect Knowledge of Market Conditions:** Small industries often suffer from marketing difficulties because their products are not properly advertised through various media of communications. Therefore, they face a competitive disadvantage. Hence, it is necessary to provide information about the products of these industries and to bring producers into close contact to eliminate the middlemen. Government should also help small industries in exporting their products to foreign countries
- (iv) **Inadequate Availability of Finance and Credit:**

Scarcity of finance is another major obstacle in the development of small industries. The capital base of the small entrepreneurs is usually weak and so they often procure credit at a high rate of interest.

A system of integrated credit should be evolved to meet the long term and short term credit requirements of the small industries at reasonable rate of interest.

- (v) Lack of infrastructural facilities: Many small industries in backward areas are still deprived of infrastructural facilities like power, transport, and communication services. This has hampered their proper and efficient working thereby retarding their development.
- (vi) Deficient Managerial and Technical Skills: The development of the small-scale sector has been hampered due to the shortage of trained and experienced managerial and supervisory personnel. Provision of technical services is needed to stimulate productive, efficiency and new product lines.
- (vii) Inverted tariff structure and raw material availability. As noted, small scale industries contribute significantly to the export earnings of the country. Many of these industries use imported raw material and intermediate goods. According to Sebastain Morris, despite import liberalization during 1990s, the tarrifs on materials like steel, copper and many non-ferrous metals, plastics, many chemicals, paper etc, remain high in comparison to tariffs on

manufactured goods (other than consumer goods). This has created the problem of a significant 'inversion' in tariff structure, which specially hurts small firms since they are more labour using and have high material-to-output ratios. Small -scale industries that use local raw material also face a number of problems. For instance, the handloom industry depends for its requirement of cotton on local traders. These traders often supply cotton on condition that the weavers sell the cloth only to them when it is ready. Thus the weavers are subjected to double exploitation at the hands of the traders. The traders sell cotton to them at high prices and purchase the ready cloth at low prices.

- (viii) Delayed payments: Most of the small scale industry associations complain about the hardships the small entrepreneurs go through on account of delayed payments by large firms and government departments. At times, they even have to make advance payment to have an assurance of supply. On the other hand, these small firms, when they sell to wholesalers and other firms, are often forced to offer extended credit periods. Especially in their dealings with other large firms as subcontractors, this is a major problem. As far as delays in payments from government departments against goods supplied to them under the government's purchase programme is concerned, these delays are on account of the cumbersome and complex procedures and rampant corruption in these departments.

(ix) Problem of sickness – there are two main issues in respect of sick SSIs:

i) existence of a large number of sick units which are non-viable, and ii) rehabilitation of viable units. As far as the former is concerned, there were 1,67,980 sick SSI units as on March 31, 2003. These units were those that had obtained loans from banks. An amount of Rs 5,706 crore was blocked in these units. Of these, as many as 1,62,791 units with outstanding bank credit of Rs. 4,569 crores have been identified by banks as being non-viable. As far as the latter issue is concerned, of the, 1,67,980 sick SSI units as on March 31, 2003, only 3,626 units with outstanding bank credit of Rs. 625 crores were found to be potentially viable by the banks. However, rehabilitation of sick units is a costly proposition. It involves re-scheduling of past over dues with concessions on interest amount due, additional credit for modernization and technological upgradation and provision for fresh working capital.

4.9 Problems related to Lead Bank Scheme

Lead Bank Scheme has no doubt created an awareness for better credit planning and resulted understanding of mutual problems at the ground level. Many of the Lead Bank Committee however, have tended to become more ritualistic than functional. Co-operation between banks and Government agencies, have also not been achieved in the real sense, particularly in the context of large scale implementation of anti-poverty programmes where targets set by Government Departments have become

more sacrosanct than the guideline laid down under credit planning. Although the quality of the credit plans have steadily improved over the years as a result of increasing familiarity of the bank staff with the techniques of credit planning, the absence of reliable data at the block level still remains a major problem. The annual plan targets of various Government Departments are still not available block-wise in most cases. In the absence of proper district or block development plans lead Banks struggle to give shape to credit plans on the basis of whatever information they could collect. The Lead Bank Scheme and credit planning have no doubt made considerable progress during the past two decades. But with too many banks, too many programmes with some degree of commonalty of objectives and too many agencies involved, coordination has become a major problem.

Table – 5

Allocation of Fund by Canara Bank to SSIs in Aligarh District:

March 2005 – December 2007

(Rs. In thousand and lakhs)

Year	Month	(Outstanding Data) Total Credit (Rs. In thousands)
2005	March	982195
	June	1000128
	September	1107852

2006	March	1170034
	June	1175894
	September	1162500
	December	1046553
2007	March	1417840
	June	10602 (in lakhs)
	September	13037 (in Lakhs)
	December	13651 (in lakhs)

Source: Regional Office, Canara Bank, Aligarh

Table 5, shows the allocation of fund by Canara Bank (lead Bank) in Aligarh District to the SSIs.

Total Credit given in the month of March in the year 2005 was 982195 (in thousands). Later it increased to 1107852 (in thousands) in the month of September in the year 2005 respectively.

Again in the month of March, 2006 the figure rose to 1170034 (in thousands). In the month of December, 2006 there was a considerable rise in credit, i.e., 1046553 (in thousands) by the Canara Bank to SSIs in Aligarh District.

In the year 2007 the total Credit which amounted was in lakhs. It is clearly shown in the table that the credit flow by the Canara Bank rose to 13651 (in lakhs) in the month of December, 2007, to the SSIs in Aligarh District.

The outstanding data clearly shows that there has always

been a considerable progress in the allocation of funds by the Canara Bank to the SSIs in Aligarh District.

4.10. Analysis of Survey Results

4.10.1. Year of establishment

The study shows that majority of the SSI units in the Aligarh district i.e. 44.44 percent were established between 1991-2001 and another 26.67 percent between 1981-1990. Similarly, 16.67 percent units were set up before 1980 and 12.22 percent units after 2001. The details of classification of units as per the year of establishment can be seen from table 6.

4.10.2. Forms of organization:

The SSI units belonged to different forms of business organization viz. proprietorship, partnership, companies and co- operatives. This is shown in table 7. it is found that majority of the SSI units belonged to proprietorship (64.44%) concern, which is followed by companies (17.78%), partnership (8.89%) partnership (joint family) (7.78%) and cooperatives (1.11%).

4.10.3. Range of investment:

Table 8 shows that the range of investment made by SSI units in plant and machinery. It is seen from the table that 34.44 percent units made investment in plant and machinery is less than Rs.1 (one) lakh, followed by Rs.20 lakh and above (17.78%), Rs.1 (one) lakh to Rs.2 lakh (10.00%).

4.10.4. Size of employment:

The employment size is shown in table 9. It is seen that majority of 34 (37.78%) units employed up to 5 persons

followed by 32 (35.56%) units employed 6-10 person, 13 (14.44%) units employed 11-20 persons, 8(8.89%) units employed, 21-30 persons. There is only 1(1.11%) unit each, which employed 31-40, 41-50 and 51-60 persons.

4.10.5. Type of activity:

Table 10 shows that the SSI units are engaged in different types of activity. It is seen that builders hardware was the dominant SSI units (take handle locks, driver locks, furniture locks electric locks, cycle locks, auto part safe locks, door locks, etc.), (22.22%), brass building and fitting (6.68%), Ped locks units, (6.67%), Alluminium hardware and lock building (5.56% each), auto part and miscellaneous units (4.44% each), Eldrop and brass statue (2.22% each) other units like steel furniture, Engg. items, non-ferrous electrical building fittings, dye casting, iron rings, tube well parts, hand press, packaging etc. were found to be negligible in existing industries.

4.10.6. Electric Power Consumption:

The consumption of electricity by the SSI units is shown in table 11. it is seen that 17(18.89%) SSI units consumed 1000 watt and above, followed by 200 to300 watt, 300 to 400 watt by 15 units (16.67%), 400 to 500 watt by 8 units (8.89%), 100 to200 watt by 8 units(8.89%), 500 to 600 watt by 7 units (7.78%), 800 to 900 watt by 5 units (5.56%), 600 to 700 watt by 4 units (4.44%), 700-800 watt by 3 units (3.33%)and another 900-1000 watt by 3 units (3.33%).

4.10.7. Buyers Of The Products Of SSI Units:

Table 12 shows buyers of the products of SSI units. It is seen from the table that majority of the respondents said that both

private customers and govt. departments are their buyers. The intermediary manufacturing and others form a negligible portion.

4.10.8. Educational Background:

The different types of educational qualification held by the SSI entrepreneurs are shown in the table 13. it is seen from the table that majority of entrepreneurs are graduates (37.79%) followed by matriculation (23.33%) post graduation (14.44%), technical and higher secondary (12.22%) each.

4.10.9. Family Background:

The family background of the SSI entrepreneurs is shown in table 14. It is seen that majority of them belong to the service family (53.34%) followed by business family (42.22%), poor and uneducated (4.44%) who are engaged in business activity is very less.

In the case of category, General Caste (78.89%) entrepreneurs are dominant followed by other backward classes (13.33%), Scheduled Caste (5.55%) and Scheduled Tribe (2.22%)

4.10.10. Experience of entrepreneurs:

The experience of the different SSI entrepreneurs is shown in table 15. it is found that 19 (21.11%) number of entrepreneurs have 30 years and above experience followed by 18 (20/) number of entrepreneurs have 15 to 20 years of experience, 5 to 10 years 17 (18.89%), 10 to 15 years 13 (14.44%) less than 5 years 9 (10%), 25 to 30 years 8 (8.89%), 20 to 25 years 6 (6.6%). It shows that a large number of entrepreneurs have more than 30 years of experience.

4.10.11 Reasons for choosing this profession:

The reason stated by the entrepreneurs for choosing this profession is shown in table 16. it is seen that majority of the entrepreneurs have chosen this profession because they are interested in their respective line of activity (54.44%), 22 (24.44%) entrepreneurs cited preference to have an independent life as the main reason. 14 (15.57%) entrepreneurs said that because they didn't had other alternative, they have opted to this profession. Only 4 (4.44%) entrepreneurs gave family pressure as their main reason and another 1 (1.11%) said because of government assistance he had chosen this profession.

4.10.12. Interest in other business activity:

The SSI entrepreneurs who had interest in other business activities are shown in table 17. It is seen that 55 (55.56%) of the entrepreneurs were interested in other line of business, where as 44 (44.44%) had no interest line of business.

4.10.13. Total investment:

The total investment made by SSI entrepreneurs are shown in table 18. It is seen from the table that majority of the SSI units 23 (25.56%) have investment in the range of more than 20 lakh followed by Rs. 1 to Rs. 2 lakh 15 (16.66%) units, less than Rs.1 lakh 12 (13.33%) units, Rs. 10 lakh to Rs. 15 lakh 12 (13.13%) units, Rs.2 lakh to Rs.4 lakh 8 (8.89%) units and so on.

4.10.14. Sources of term loan:

The various sources of term loan are shown in table 19.it is seen from the table that, of the 90 units surveyed 30

(33.33%) units have their funds from own sources. The entrepreneurs who received term loan from commercial banks are 33 (36.67%) units where as those who receive it from other financial institutions comprises 27(30%) units.

4.10.15. Problems in securing term loans:

Problem in securing term loans is shown in table 20. It is found that out of the total 90 units surveyed only 33 units borrowed from commercial banks and 27 units from other financial institutions. The various problem which the entrepreneurs face in securing term loans shows that of the 33 units which borrowed from commercial banks 20 respondents didn't find any problem in obtaining loans, 11 respondents found that there are too many legal formalities, 9 respondents found the procedures of securing loans from commercial banks were too cumbersome, 7 respondents found that commercial banks made delay in sanctioning term loans, 5 respondents found that the penal interests were too heavy, 4 respondents found that inadequate finance is provided by commercial banks and 2 respondents found that private payment should be made to officials and non- officials during sanctioning of loans.

In the case of loans from other financial investment out of 27 units which received term loan 15 respondents said that there is no problem, 8 respondents found the procedure too cumbersome, another 8 respondents found penal interest too heavy, 4 respondents found there is delay in sanctioning loans by other financial institutions, 4 respondents found that inadequate finance is provided to them in case of sanctioning of loans, another 4 respondents found that payments should be made to officials and non- officials while

securing loans and only 2 respondents highlighted suppliers linked loans.

4.10.16 Sources of working capital:

The sources of working capital is shown in table 21. It is seen that majority of 53(58.89%) SSI units did not approach banks for working capital requirements. The number of units that receive working capital from commercial banks are 33 (36.67%) units and only 4 (4.44%) units receive working capital from other financial institutions.

4.10.17. Credit facilities obtaining from banks:

Table 22 highlights the various credit facilities viz. cash credit hypothecation and they obtain overdraft facilities. Out of 90 surveyed units only 37 received credit facilities. Majority of 33(89.19%) units got cash credit hypothecation from banks while 4 (10.81%) units received overdraft facilities..

4.10.18. Problems in securing working capital

Out of the total 90 units surveyed only 37 units received working capital from commercial banks and other financial institutions. Of them 33 units received working capital from commercial banks and 5 units from other financial institutions. This is shown in table 23. It is seen that out of 33 units which received working capital from commercial banks 20 respondents didn't find any problem in receiving working capital, 12 respondents found that there are too many legal formalities 10 respondents found that repeated requests are to be made to banks officials while obtaining working capital. 8 respondents found that periodical statements are strictly insisted while sanctioning working capital, 7 respondents found the procedure too cumbersome,

6 respondents found unaccounted expenses are borne by them in entertaining of officials and non- officials before obtaining loans. 5 respondents found that inadequate amount of working capital are provided to them. In the case of 5 SSI units which received working capital from other financial institutions, 3 respondents highlighted that there is no problem in securing working capital, 1 respondent found that repeated requests are to be made to the officials while obtaining loans and another 1 respondent found that there are too many formalities made by banks before sanctioning of working capital.

4.10.19. Respondent of loan:

Of the total 90 SSI units surveyed the number of units who made regular repayment of loan is shown in table 24. it is seen from the table that 63 units availed loan and of them 54 units made regular repayment and 9 units didn't made regular repayment this is because of shortage of production, inability to sell the product, non- receipt of sale proceeds from customers and excessive cost incurred in production.

4.10.20. Total loan borrowed and repaid:

The total loan borrowed and repaid by SSI units is shown in table 25. it is seen from the table that out of 60 units who borrowed 14 (22.22%) units borrowed in the range of Rs. 20 lakh and above followed by 13 (20.63%) units borrowed in the range of less than Rs. 1 lakh. Rs. 1 lakh to Rs. 2lakh by 10 (15.87%) units, Rs.2 lakh to Rs. 4 lakh 8 (12.70%) units, Rs. 6 lakh to Rs. 10 lakh by 7 (11.11%) units, Rs. 10 lakh to Rs. 15 lakh by 4 (6.35%) units, Rs. 15 lakh to Rs. 20 lakh by 4 (6.35%) units, Rs. 4 lakh to Rs. 6 lakh by 3 (4.37%) units. As

far as total loan repaid is concerned 18 (28.57%) units repaid in the range of less than Rs. 1 lakh, Rs. 1 lakh to Rs. 2 lakh by 8 (12.70%) units, Rs. 2 lakh to Rs. 4 lakh by 8 (12.70%) units, Rs. 4 lakh to Rs. 6 lakh by 7 (11.11%) units, Rs. 6 lakh to Rs. 10 lakh (11.11%) units, Rs. 10 lakh to Rs. 15 lakh by 6 (9.52%) units, Rs. 20 lakh and also above by 5 (7.94%) units and Rs. 15 lakh to Rs. 20 lakh by 4 (6.35%) units.

Table-6

Distribution of SSI Units by Year of Establishment

Sl. No.	Year	Number of Units	Percentage
1.	Before 1980	15	16.67
2.	1981-1990	24	26.67
3.	1991-2000	40	44.44
4.	2001 and above	11	12.22
	Total	90	100.00

Source: Field Survey

Table-7
Distribution of SSI Units by the Type of Legal Organization

Sl. No.	Type of Legal Organization	Number of Units	Percentage
1.	Individual proprietorship	58	64.44
2.	Partnership (Joint family)	07	7.78
3.	Partnership	08	8.89
4.	Public Limited Company	0	0.00
5.	Private Limited Company	16	17.78
6.	Co-operative Society	1	1.11
7.	Any other	0	0
	Total	90	100.00

Source: Field Survey

Table-8

Investment Made by SSI in Plant and Machinery

Sl. No.	Range of Investment	Number of Units	Percentage
1.	Less Than – Rs. 1 Lakh	31	34.44
2.	Rs. 1 Lakh – Rs. 2 Lakh	9	10.00
3.	Rs. 2 Lakh – Rs. 4 Lakh	11	12.22
4.	Rs. 4 Lakh – Rs. 6 Lakh	8	8.89
5.	Rs. 6 Lakh – Rs. 10 Lakh	5	5.56
6.	Rs. 10 Lakh – Rs. 15 Lakh	7	7.78
7.	Rs. 15 Lakh – Rs. 20 Lakh	3	3.33
8.	Rs. 20 Lakh and above	16	17.78
	Total	90	100.00

Source: Field Survey

Table-9
Distribution of SSI Units by Employment Size

Sl. No.	Size of employment	Number of Units	Percentage
1.	Upto 5	34	37.78
2.	6-10	32	35.56
3.	11-20	13	14.44
4.	21-30	8	8.89
5.	31-40	1	1.11
6.	41-50	1	1.11
7.	51-60	1	1.11
	Total	90	100.00

Source: Field Survey

Table-10**Distribution of SSI Units by the type of Activity**

Sl. No.	Category	Number of Units	Percentage
1.	Builders Hardware	27	30.00
2.	Lock units	20	22.22
3.	Brass Building and fitting	06	6.68
4.	Ped Lock Units	06	6.67
5.	Alluminium Hardware	05	5.56
6.	Lock Building	05	5.56
7.	Auto Parts	04	4.44
8.	Miscellaneous Units	04	4.44
9.	Eldrops	02	2.22
10.	Brass Statue	02	2.22
11.	Steel Furniture	01	1.11
12.	Engg. Items	01	1.11
13.	Non-ferrous Electrical	01	1.11

	Building fittings		
14.	Dye-Casting	01	1.11
15.	Iron Rings	01	1.11
16.	Tube Well Parts	01	1.11
17.	Hand Press	01	1.11
18.	Packaging	01	1.11
19.	Pharmaceuticals	01	1.11
	Total	90	100.00

Source: Field Survey

Table-11**Distribution of SSI Units According to Electric Power Consumed**

Sl. No.	Range of Units of Consumption	Number of Units	Percentage
1.	Less than 100 watts	4	4.44
2.	100 – 200 watts	8	8.89
3.	200 – 300 watts	16	17.78
4.	300 – 400 watts	15	16.67
5.	400 – 500 watts	8	8.89
6.	500 – 600 watts	7	7.78
7.	600 – 700 watts	4	4.44
8.	700 – 800 watts	3	3.33
9.	800 – 900 watts	5	5.56
10.	900 – 1000 watts	3	3.33
11.	1000 and above	17	18.89
	Total	90	100.00

Source: Field Survey

Table-12

Buyers of the products of the SSI Units

(i)	Private Customers	---	89
(ii)	Government Departments	---	46
(iii)	Intermediary manufacturing units	---	2
(iv)	Others	---	2

Source: Field Survey

Table-13

**Distribution of SSI Units According to Educational
Qualification of Entrepreneurs**

Sl. No.	Educational Qualification	Number of Units	Percentage
1.	Matriculation	21	23.33
2.	Higher Secondary	11	12.22
3.	Graduation	34	37.79
4.	Post-Graduation	13	14.44
5.	Technical	11	12.22
	Total	90	100.00

Source: Field Survey

Table-14**Distribution of SSI Units according to Family Background**

Sl. No.	Family Background	Number of Units	Percentage
1.	Comes from educated family	86	95.55
2.	Comes from business family	38	42.22
3.	Comes from poor family	4	4.44
4.	Comes from uneducated family	4	4.44
	Category		
1.	General	71	78.89
2.	Scheduled Caste	5	5.55
3.	Scheduled Tribe	2	2.22
4.	Other backward Class	12	13.33

Source: Field Survey

Table-15

Distribution of SSI Units by Experience of Entrepreneurs

Sl. No.	Years of Experience of Entrepreneurs	Number of Units	Percentage
1.	Less than 5	9	10.00
2.	5 – 10	17	18.89
3.	10 – 15	13	14.44
4.	15 – 20	18	20.00
5.	20 – 25	6	6.67
6.	25 – 30	8	8.89
7.	30 and above	19	21.11
	Total	90	100.00

Source: Field Survey

Table-16
Distribution of SSI Units According to Reasons for
Choosing this Career

Sl. No.	Reasons	Number of Units	Percentage
1.	No other alternative	14	15.57
2.	Family pressure	4	4.44
3.	For Govt. assistance	1	1.11
4.	Interested in this line of activity	49	54.44
5.	Preference to have an independent life	22	24.44
	Total	90	100.00

Source: Field Survey

Table-17
Distribution of SSI Units According to other Business Interests

Sl. No.	Business interests respondent	Number of Units	Percentage
1.	Interested in other line of business	50	55.56
2.	Not interested in other line of business	40	44.44
	Total	90	100.00

Source: Field Survey

Table-18**Distribution of SSI Units According to Total Investment**

Sl. No.	Range of investment	Number of Units	Percentage
1.	Less than - Rs. 1 Lakh	12	13.33
2.	Rs. 1 Lakh - Rs. 2 Lakh	15	16.66
3.	Rs. 2 lakh - Rs.4 Lakh	8	8.89
4.	Rs. 4 Lakh - Rs. 6 Lakh	6	6.67
5.	Rs. 6 Lakh - Rs. 10 Lakh	6	6.67
6.	Rs. 10 Lakh - Rs. 15 Lakh	12	13.33
7.	Rs. 15 Lakh - Rs. 20 Lakh	8	8.89
8.	Rs. 20 Lakh - and above	23	25.56
	Total	90	100.00

Source: Field Survey

Table-19
Distribution of SSI Units According to Sources of Term Loan

Sl. No.	Sources of term Loan	Number of Units	Percentage
1.	Commercial banks	33	36.67
2.	Other financial institutions	27	30.00
3.	Own funds	30	33.33
	Total	90	100.00

Source: Field Survey

Table-20

**Distribution of SSI Units According to Problems in
Securing Term loans**

	Sources of Borrowing	Commercial Banks	Other Financial Institutions
	No of borrowed SSI Units	33	27

Sl. No.	Particulars	No. of Units	No. of Units
1.	Too Cumbersome	9	8
2.	Too many legal formalities	11	7
3.	Private payment to officials and non-officials	2	4
4.	Delay	7	4
5.	Inadequate finance	4	4
6.	Penal interest is heavy	5	8
7.	Suppliers linked loans	---	2
8.	No Problem	20	15

Source: Field Survey

Table-21

Distribution of SSI Units According to Sources of Working Capital

Sl. No.	Sources of Working Capital	Number of Units	Percentage
1.	Commercial Banks	33	36.67
2.	Other Financial Institutions	4	4.44
3.	Own funds	53	58.89
	Total	90	100.00

Source: Field Survey

Table-22

Distribution of SSI Units according to the type of credit facilities obtained from Banks

Sl. No.	Type of Credit	Number of Units	Percentage
1.	Cash Credit – Hypothecation	33	89.19
2.	Overdraft	4	10.81
	Total	37	100.00

Source: Field Survey

Table-23

**Distribution of SSI Units According to Problems in
securing working Capital from Banks**

	Sources of Borrowing	Commercial Banks	Other Financial Institutions
	No of borrowed SSI Units	33	5

Sl. No.	Particulars	No. of Units	No. of Units
1.	Cumbersome	7	---
2.	Repeated requests are made	10	1
3.	Too many formalities	12	1
4.	Unaccounted expenses in entertaining of officials/ non-officials	6	---
5.	Inadequate funds	5	---
6.	Periodical statements are strictly insisted	8	---
7.	Suppliers linked loans	8	---
8.	No Problem	20	3

Source: Field Survey

Table-24

**Distribution of SSI Units according to the Regular
Repayment of loan**

Regular repayment	Number of Units
Yes	54
No	09
Total	63

If number state the constraints

(i)	Shortage of production	---	5
(ii)	Inability to sell the product	---	3
(iii)	Non-receipt sale proceeds from customers	---	5
(iv)	Excessive cost incurred in production	---	1

Absence of working capital with reaching take-off stage is creating a problem.

Source: Field Survey

Table - 25

**Distribution of SSI units according to the Total Loan
Borrowed and Repaid:**

S. No.	Amount of working capital	Number of Units borrowed	Percent -age	No. of Units repaid	Percentage
1.	Less than - Rs. 1 Lakh	13	20.63	18	28.57
2.	Rs. 1 Lakh - Rs. 2 Lakh	10	15.87	8	12.70
3.	Rs. 2 lakh - Rs.4 Lakh	8	12.70	8	12.70
4.	Rs. 4 Lakh - Rs. 6 Lakh	3	4.76	7	11.11
5.	Rs. 6 Lakh - Rs. 10 Lakh	7	11.11	7	11.11
6.	Rs. 10 Lakh - Rs. 15 Lakh	4	6.35	6	9.52
7.	Rs. 15 Lakh - Rs. 20 Lakh	4	6.35	4	6.35
8.	Rs. 20 Lakh - and above	14	22.22	5	7.94
	Total	63	100.00	63	100.00

Sources: Field Survey

CLAS

Reference

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CHAPTER – 5

PROBLEMS AND PROSPECTS

5.1 Introduction

The small scale industrial (SSI) sector is a vital segment of India's industrial sector. It plays a crucial role in the development of the economy of our country. It contributes significantly to Indian's Gross Domestic Product and Export earnings besides fulfilling the objectives including that of providing employment opportunities to the population across the country. The SSI sector covers a wide spectrum of industries categorized under (a) small scale industrial undertakings, (b) ancillary industrial undertakings (ANC), (c) export oriented units (EOUs), (d) tiny enterprises (TINY), (e) small-scale service enterprises (SSSEs), (f) small-scale service business (Industry Related) enterprises (SSBEs), (g) artisans, village and cottage industries, and (h) women entrepreneurs' enterprises, i.e., a small scale unit where one or more women entrepreneurs have not less than 51 percent financial holding¹.

The Bank's SME policy is based on the broad guidelines of Government of India as per the MSMED Act, 2006, which came into force w.e.f. 2nd October, 2006.

Definition of SMEs

SME sector comprises, Micro Enterprise, Small Enterprise and Medium Enterprises Manufacturing and Service Segments.

	Manufacturing	Services
Micro Enterprise	The investment in plant and machinery (original cost) does not exceed Rs. 25 lakhs	The investment in equipment does not exceed Rs. 10 Lakhs
Small Enterprise	Investment in plant and machinery (original cost) is more than Rs. 25 Lakhs but does not exceed Rs. 500 lakhs	The investment in equipment more than Rs. 10 Lakhs but does not exceed Rs. 200 Lakhs
Medium Enterprise	Investment in plant and machinery (original cost) is more than Rs. 500 lakhs but does not exceed Rs. 1000 lakhs	The investment in equipment is more than Rs. 200 Lakhs but does not exceed Rs. 500 Lakhs

- a) Enterprise means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacturing or production of goods, in any manner pertaining to any industry specified in the first schedule to the Industries in (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services.
- b) In calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items as may be specified by notification shall be excluded.
- c) The word equipment is defined as "All instruments,

office machines and such other electro mechanical or electronic appliances that are directly related to the service rendered but excluding furniture, fittings and other items not so related.”

The above definitions are in place of the erstwhile definitions of SSI and Medium Enterprises (SME Sector).

The services segment includes all service activity excluding retail and wholesale trading. An illustrative list of services is furnished below. The list is not exhaustive.

Restaurants, clinics, diagnostic centres, cybercafé, Xerox centres, beauty parlour, crèche, studio, courier service, logistics, ticketing, centering service, repair/ service centres (electrical and electronic) ITES, medical transcription etc.²

The Reserve Bank of India has given the status of priority sector to SSI lending by banks and various guidelines have been issued in this regard from time to time. But some problems are prevalent which disturb the growth of small scale and cottage industries. A lot of internal and external factors have put considerable pressure on the performance of the SSIs, resulting in a number of them becoming sick. The sickness in SSI sector is showing an increasing trend and a large number of SSI units are being identified as sick.

It is the time to look into the operative problems which the entrepreneurs have to contend with, the problems relate to such aspects, as finance and machinery, marketing and sales, raw materials and availability of skilled labour etc.

“To conclude it would suffice to state here that an overwhelming majority of entrepreneurs do not have problems

pertaining to availability of machines, raw materials, consumption of their manufactured goods in the market and availability of skilled personnel. Although a substantial percentage of them are in need of financial resources, nevertheless they are busy pursuing their enterprises.”³

The problems can, no doubt be covered under some broad headings like problem of finance, marketing infrastructure, technology etc.

5.2 General Problems of Small Scale Industries (SSIs):

5.2.1 Problem of Finance:

Finance is an important input of production, distribution and development. But considering the key role, finance plays in accelerating the process of small scale industries development, the total amount loan sanctioned to it forms a very significant part of the total loan to Indian industry because of inadequate credit of the viability of the unit is affected greatly and it results in their sickness and ultimate closure. The flow of credit to the small scale sector is affected because of “a weak financial base, which eventually prompts the Entrepreneurs to bring in funds by way of loan rather than capital, improper maintenance of books of account, inability to provide collateral security, delay in payments by the larger units, lack of appreciation of financial data required by banks or financial institution etc., the administrative cost of lending to small borrowers, high mortality rate or sickness amongst the SSI units, the concessional interest rate does not motivate the financial institutions to invest in small scale units⁴.

5.2.2 Problem of Marketing

Marketing is the most essential factor for the survival and growth of firms. It is the place where goods and services are bought and sold. In India, inspite of a large domestic market, marketing remains a problem area for the small scale sectors. Marketing has been identified as an important aspect affecting small-scale industries performance. Besides finance, marketing is the key element which, if not pragmatically assessed leads to the closure of the units.

The major problem of marketing in the Indian small scale sectors are “product quality, service to customers, cost effectiveness, consistency and reliability adherence to delivery schedules, lack of proper market information and the mindset of entrepreneurs.⁵”

Moreover, entrepreneurs are facing critical problems at the time of planning for an investment due to unawareness of proper planning, lack of knowledge of market survey, selection of appropriate type of plant and machinery, etc. Also some units in the small-scale sectors are fully dependent on government purchase.

5.2.3. Problem of Infrastructure:

One of the most important components of industrial development is infrastructure. Small scale units are being constrained by inadequate physical infrastructure in which most severe constraint is power. In India many states have a problem of power which affects the growth of SSIs.

Similarly, problem of transportation, communication and infrastructure hinder the growth of SSIs.

5.2.4. Problem of Management

The inefficient management is quite inherent in the SSI because in most of the cases the entrepreneur looks after various causes ranging from accounting to marketing as well as production. There is no division of labour. Most of the industrial units fall sick because of poor management and also dissention within management.

5.2.5. Problem of Technology:

For small-scale sector units, technology is also an area of challenge. Inadequate attention to technology up-gradation has acted as a hindrance on the way of modernization of SSIs factors. Most of the units are still carrying on with obsolete technology.

The present barriers for technological up-gradation are⁶

- There is little motivation among small-scale units or entrepreneurs to create in house research development cells.
- Aspiring entrepreneurs often do not pay attention to including levels of communication through faster technological growth.
- Funding institutions often fail to provide credit support to technological innovation.
- Unwillingness to change product lines or bring changes in product dimension with the help of technical support and faster technological growth to meet the changing market demand.
- There is at present, no effective mechanism for helping

the small scale sector to forecast technological change which is vital for economizing the use of productive resources like the raw materials, man power and core technological application.

5.2.6. Other Problems:

In addition to these problems other problems may be delayed payment by the large scale units to SSIs, problem of raw material, i.e., inadequate irregular supply of raw material, lack of organized market channels, unorganized nature of operations, imperfect knowledge of market operations, problem of sickness, inadequate data base for the small scale sector, burden of local taxes, competition from large scale units, non-availability of cheap power etc. SO, these are some of the problems, which directly affect the growth and development of SSIs

5.3. Problems specific to Aligarh District

5.3.1. Inadequate Finance and Credit:

Lack of finance and credit is the vital problem for the development of small-scale industries in Aligarh district. The position of cottage and village industries is even worse.

In Aligarh district, problem of finance is a major problem for the development of SSI units because the banks and the financial institutions both are unable to meet the long requirement of the small units. So, this indirectly retards their growth.

5.3.2. Problem of Marketing

The small scale and cottage industries continue to face a number of problems in the field of marketing. In case of

Aligarh district, marketing is a severe problem for some SSIs, because they do not have adequate knowledge about the active market. And most of the small unit are unable to take their product in the active market.

5.3.3. Problem of Power:

One of the major problem faced by the SSIs of Aligarh district is the problem of power. So the most sever constraint is power. At reasonable rate, capacity generation is impossible for small units.

Therefore, they depend on State Electricity Board (SEB) for meeting their requirement which do not supply adequate power to the small units. Many SSIs of Aligarh district are forced to make private deal with electricity official due to rampant corruption.

5.3.4 Problem of Management:

Management problem is one of the most common problem found in every SSI unit of Aligarh district. This is because entrepreneur is the whole and sole and there is no division of labour. And due to this problem, it directly effects the development of SSIs.

5.3.5. High Cost of Production:

In Aligarh district, cost of production is high due to obsolete technology used in the production process.

5.3.6. Problem of Raw Material:

The problem of raw material is one of the major problem for the majority of small-scale units. All the things that are required for manufacturing process are not easily available in

the state, therefore, this hampers the development of SSIs.

5.3.7. Lack of Skilled Personnel:

Sometimes lack of skilled personnel creates the problem for the development of SSIs. In Aligarh district most of the personnel who are indulged in the production process are unskilled.

5.3.8. Problem of Increasing competition:

Small-scale in Aligarh district faces increasing competition because of cheap products brought by the wholesaler from other parts of the country.

5.3.9. Underutilization of Capacity:

According to the report of Canara Bank on the All India Census of small scale industries, it shows substantial under utilization of capacity in small-scale industries which is a grave problem.

5.3.10 No research and Development facilities:

In case of Aligarh district, due to financial constraints in SSIs, there is no research and development facilities. Therefore, innovation is usually not there in the SSIs.

5.3.11 Improper assistance as well as guidance from government and other organizations.

SSIs do not get proper assistance as well as guidance from the government and other organization due to their indifferent attitude towards the SSIs sectors in U.P.

5.3.12. Child Labour:

Due to lack of education and over population most of the poor families surrender their children's childhood to the

darkness of SSIs. Child labour means cheap labour, the young even the very young are most employable. Child labour is a prominent feature of the SSIs of Aligarh district. More than 50,000 children do polishing and packing job.

5.3.13. Problem of registration:

One of the most important problem of SSI is related to registration. A small-scale industry, after getting the approval of the Industries Department for establishment, is granted a temporary license.

Permanent registration is granted only after the unit launched, begins its production. But, the SSIs are not granted permanent registration even after one or two years of production. As a result, they are unable to sell their goods outside the state and avail the benefit of concessional facilities.

5.3.14 Problem of Standardization:

Those industrial units, which are engaged in the manufacture of plastic, polythene, textile goods, hosiery, medicine goods etc. face the problem of standardization. As a result of lack of this facility in Aligarh district, they are unable to market their products outside the state of U.P.

Moreover entrepreneurs are facing critical problems at the time of planning for investment due to awareness of proper planning, lack of knowledge of market survey, selection of appropriate type of plant and machineries etc.

The government from time to time has adopted various schemes through institutional sources by providing marketing assistance to lessen these problems. In spite of

these, the situation with respect to finance, marketing, and infrastructure etc. problems donot seem to have disappeared.

5.4 Future Prospects of Small Scale Industries in India:

The number of units in SSI sector is estimated to have increased to 123.42 lakh units at the end of March 2006 as compared to 118.59 lakh units at the end of March 2005, recording an increase of 4.83 lakh units during 2005-06.

Employment in the sector is estimated at the level of 2941.91 lakh at the end of March 2006, indicating an addition of 12 lakh person to the sector's aggregate employment of 289.91 lakh as at the end of March 2005. Similarly, export from SSI sector has also increased. During last four to five years we have seen a lot of growth and development in SSI sector. Therefore, if we discuss about the future prospect of SSI sector, definite has been shown. Government of India announces various schemes and has taken various steps for the development of SSIs.

- Honourable Union Finance Minister has launched rating agency in the year 2005 i.e. the SME Rating Agency of India Ltd. (SMERA) to provide rating that are comprehensive, transparent and reliable and which would enable the rated units to borrow at competitive rate of interest.
- The Industrial Development Banks and Infrastructure leasing and Financial Service Limited (IL & FS) have joined hands with a view to address the existing gap in the infrastructure facilities for the SME units.
- The government of India has set up varies agencies and

provides services for the development of SSIs like the Khadi and Village Industries Commission, All India Handloom and Handicraft Board DICs, NSICs etc. These agencies provide good concession like those in the field of excise duties on their products.

- The Government also helps for skill formation and technological up-gradation, the government provides finance to SSIs through its various organization.

Small scale sector has played a significant role in the development of the country during the past 50 years by addressing multidimensional issues of entrepreneurship, employment, industrialization, regional imbalances and export competitiveness. Government has laid down stress on technological up-gradation, modernization, infrastructural arrangements including connectivity and technological transfer for the small scale industries.

With the development and growth of the economy, the importance of SMEs is going further up in terms of creation of employment and balanced regional growth. It would also act as a catalyst for further industrial development in view of the forward and backward linkages.

With the support from various agencies national as well as international, the Kaleidoscope of the sector is bound to change for the better. After independence, various industrial policies were adopted from time to time for the rapid industrial development of the state. But these policies were not much successful. Therefore, some years back government introduced New Industrial Policy of the state i.e., Industrial Policy Reduction, 1997 with a view to create a strong

industrial base and employment opportunities. The new industrial policy is to give special attention to the following areas in the process of industrialization:

- Development of local skill and entrepreneurial abilities
- Development of women entrepreneurs.
- Creation of maximum employment opportunities for local people.
- Development of food processing industry
- Growth of export oriented units.
- Promotion of rural non-farm sector,
- Balanced regional development within the state giving special attention to less developed areas
- Revival of sick units
- Development and promotion of village and small-scale services and business enterprises.
- Establishment of medium and large scale industries in public, private, joint and assisted sector to create an industrial base, offering large scale opportunities in multi directions through backward and forward linkages.

These efforts are expected to provide necessary steps for pushing up industrial growth of the state to a considerable extent in the near future.

5.5. Future prospects of small-scale Industries in Aligarh District

Aligarh is a well known industrial district in Uttar Pradesh.

The district has made a significant headway in industrial development and has earned a name in metal works. Basically, Aligarh is famous for 'locks. There are more than 7134 small scale units registered under Indian factories Act 1948. The industries include manufacturing of building, fitting materials, electrical equipment, light engineering, carpets and other metal products. The Industrial Policy of the government is to emphasize and develop small and tiny industrial units particularly in rural areas. But the district is still lagging behind many other states/ districts as far as industrial development is concerned. With the onset of economic reforms the focus has broadly shifted to these parts of the country to bear the fruits of industrialization. So, small-scale industries will have to play a significant role in the industrial development of the district. Though the Industrial Policy of 1991 was not much successful, the new industrial policy was initiated with a promise for adopting a smooth and rapid industrialization in the state.

The new industrial policies introduced by both central and state government, the future prospects of SSIs in U.P. seems to be quite bright. The central government has also made provision for tax concession to newly developed industries in a backward state like U.P. which has brightened the scope for the promotion and development of SSI of Aligarh district.

The government of India also announces various incentives to newly developed small units. Through the Pradhan Mantri Rozgar Yojana (PMRY), the government of India provides various types of help to poor people to establish an industrial unit in a district. Recently State Government has also made

special provision for financial support, data bank for the small scale industries of the state which has brightened the prospects of the development of SSIs in U.P.

Thus in view of the current economic reforms, the prospect of SSIs is quite high. But in the ultimate analysis many more things also need to be improved like law and order situation, finance problem, marketing problem, etc, which will create conducive environment for the industrial development of Aligarh. Moreover, SSIs should be promoted and based on locally available resources for which local entrepreneurs should come forward and participate actively in the industrialization process of Aligarh. Finally, it is observed that in view of the current situation prevailing in Aligarh the current economic reforms has not created much impact in the process of industrialization of the district. But keeping a positive frame of mind and the prospects of SSIs are very bright, provided an investment friendly climate is created in Aligarh.

5.6 Problems faced by the Banks in financing Small-Scale and Cottage Industries of Aligarh District.

5.6.1. Small Scale Industries:

Rural and Cottage Industries:

The following problems were identified under Rural and cottage Industries⁷:

- a) Loan sanctioning powers vary from bank to bank should be uniform and adequate.
- b) Entrepreneurs with adequate technical skill be recommended to avoid large rejection by banks.

- c) In certain activities such as manufacture of glass beads, locks etc. are provided by the big manufacturers and finished goods taken back by them paying the nominal labour charges. To avoid such exploitation marketing can be organized by the Govt. and fair price offered to producers. Banks can finance under tripartite arrangements.
- d) Government should also arrange raw materials for the small manufacturers.

5.6.2. Other Small Scale Industries:

The following problems were identified in the smooth implementation of the various schemes⁷:

- a) Sanctioning powers vary from bank to bank; should be adequate.
- b) The necessary technical reports in case of the existing units should be provided by the District Industries centre to Banks. By and large the applications of the SSI should be routed through District Industries centre with the technical feasibility report recommending the need based finance.
- c) Adequate services on the technical field staff be provided at all possible branches.
- d) The rural industries be given priority in making available of power. Power restoration must be timely and subsidy be allowed on generating sets.
- e) There is shortage of raw materials. The U.P. brassware corporation and similar institutions are requested to assist and open its branch for the supply of non-ferrous

materials.

- f) Tempo for financing can be increased if recovery of advances are made under Public Recovery Act.
- g) A study should be made by District state Authorities for promotion and development of industries engaged in export. Technology should be developed and increased, incentive be allowed to exporters, to generate more employment. The industries identified are brasswares, Hardwares, glass beads, carpets etc.
- h) Survey of sick units should be conducted by DIC and information should be circulated amongst banks highlighting causes of sickness to enable banks to be more cautious about them.

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CHAPTER – 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The banking industry in India has made considerable progress especially during the last three decades, to emerge as one of the accredited agencies of rural development. The National Credit Council was set up in Dec, '67 to determine the priorities of bank credit among various sectors of the economy.

The NCC appointed a study group on the organizational framework for the implementation of social objectives in Oct.'68 under the chairmanship of Prof. D.R. Gadgil.

The study group found that the commercial Banks had penetrated only 5000 villages as of June'67 and out of institutional credit to agriculture, at 39%, the share was negligible at 1% the balance being met by the cooperatives. The Banking needs of the rural areas in general and backward in particular were not taken care of by the commercial Banks.

Besides, the credit needs of Agriculture, SSI and allied activities remained neglected. Therefore, the group recommended the adoption of an area approach for bridging the spatial and structural credit gaps. Later, All India Rural Credit Review Committee 1969 endorsed the view that CBs should increasingly come forward to finance activities in rural areas.

The study group which was presided over by Prof. D.R. Gadgil recommended in Oct,'69 the adoption of an "area approach" for the development of credit and banking in the

country on the basis of local conditions. The committee of Bankers appointed by RBI under the chairmanship of Sri F.K.F Nariman endorsed this area approach, RBI accepted the recommendation and formulated the lead Bank scheme (LBS) in Dec,'69. Under the scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to co-ordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning.

The LBS did not envisage a monopoly of banking business to lead bank in the district. Leader for co-ordinating the efforts of all credit institutions in each of the allotted district For expansion of branch banking facilities and for meeting the credit needs of the rural Economy. In the meanwhile, nationalization of 14 major commercial banks in July 1969 (and another 6 banks in 1980), paved the way for bringing about dramatic changes in their operations. One of the important changes ushered in immediately, was the expansion of the Branch network in the unbanked areas with a view to bridge spatial gaps. Banks were directed to open a large number of branches in unbanked rural and semi - urban areas.

ALLOTMENT OF DISTRICTS AMONG THE LEAD BANKS

All the districts in the country excepting the metropolitan cities of the Mumbai, Kolkata, Chennai and Union Territories of Chandigarh, Delhi and Goa were allotted among public Sector banks and a few private sector banks. Later on, the Union Territories of the Goa, Daman and Diu as also the rural areas of the Union Territories of Delhi and Chandigarh

have been brought within the purview of LBS.

FORMATION OF DISTRICT CONSULTATIVE COMMITTEES (DCC)

The next important development in the history of LBS was the constitution of DCCs in all the district, in the early seventies to facilitate co-ordination of activities of all the banks and the financial institutions on the one hand and government departments on the other. The DCCs were constituted in the lead districts during 1971-73.

STUDY GROUPS ON LEAD BANK SCHEME IN GUJARAT AND MAHARASHTRA

RBI constituted two study groups to study the working of the LBS in Gujarat and Maharashtra as per the decision taken in the regional consultative committee (western Region) held in August 1975.

DISTRICT CREDIT PLAN (DCP)

The second and most important phase of the LBS was formulation of DCPs and their implementation. Although certain structural credit gaps were identified earlier, positive measures were introduced only after nationalization of the banks. Certain sectors which were hitherto neglected were given a priority status and banks were asked to provide credit to these sectors in a more concerted way. Priority sector included agriculture, small scale industries (SSI), small road and water transport operators, retail trade and small business, education, self-employed persons, etc. it was made mandatory for the CBs to deploy a stipulated percentage of credit for priority sector. It was fixed at 33.30% of

outstanding credit by March 1979 and 40% by March 1985 onwards. Within the priority sector, sub targets were prescribed for agriculture and allied activities and weaker sections. The credit planning exercise under the LBS primary aimed at overall development of a district through the co-ordinated efforts of banks acting in unison with the developmental organs of the state government at the district level.

LEAD BANK OFFICERS AND LEAD DISTRICT OFFICERS

The organizational base of the lead banks was strengthened for preparation of DCPs and for its monitoring and implementation. RBI advised them in 1979 to appoint lead bank Officer [normally called lead district manager (LDM)] in each district for the purpose. Our lead banks are being headed by lead district managers. Simultaneously, RBI appointed LDOs who were allotted 4 or 5 districts each and were entrusted with the preparation and implementation of DCPs in the allotted districts.

6.1 Summary and Conclusion:

After independence of the country, the definition of a small-scale industry has been modified various times. The limit is revised from time to time to offset the impact of inflation and to meet technological needs. Presently in India the Small Scale Industry is defined as an industrial undertaking in which, investment is fixed assets in plant and machinery whether held on ownership terms, on lease or on hire purchase does not exceed Rs. 1 crore (subject to the condition that the unit is not owned, controlled or subsidiary of any other institutional undertaking).

Small scale industries play an important role in socio-economic transformation of the economy characterized by lack of capital, chronic unemployment, gross income inequality, huge quantity of unused and hidden wealth and glaring imbalances in the inter-regional industrial development. Small-scale industries deserve to be assigned a very crucial role in the development of the district, state and country.

Small-scale industries face a number of financial, technical managerial, marketing and infrastructural problems. Small Entrepreneurs suffer from lack of finance for working capital and fixed capital, their own financial resources are limited and they do not get adequate amount of loans from banks and other financial institutions which are setup for assisting SSIs.

As far as growth of SSI in Aligarh district is concerned it may be said that growth of small-scale industries is satisfactory, the number of registered units of SSI are increasing. Employment is also being generated but the growth of SSI, in urban areas is more satisfactory than the growth of SSI in rural areas of the district. The total number of Registered units and factories in Aligarh district is 7,134 respectively. 219 units are engaged in the production of locks, building fitting materials, electrical equipment, belt badges, letter boxes, other metal products like, lantern, scissors, metal notice sign board etc. in which there are about more than 37484 workers employed.

In Aligarh District, various institutions such as lead Bank (Canara Bank), SIDBI, U.P. Financial Corporation, NSIC, DIC,

and some commercial banks and cooperatives provide finance to small-scale industries and cottage industries. But in this district no enterprise has received loan from any financial institution either because of high rate of interest or because of problem of repayment of loan or they have failed to get the loan.

The banks and financial institutions do not show interest in financing new entrepreneurs. This is due to low risk involved in lending to those who are already financially sound.

The procedure of taking both term loan and working capital is so cumbersome that people take the help of relative, friends and moneylender in times of need or they use funds from their own sources.

Apart from financial problem, there are number of problems which are faced by the entrepreneur of SSIs and cottage industries of the district.

For the payment of raw material and their daily needs, the entrepreneurs have to sell their product to retailers or wholesale dealers at low prices. If they work for other concerns they receive payments after a week. During that week they become highly indebted and subsequently the whole amount is used for the payment of debt.

There is lack of proper co-ordination among financial institutions, promotional agencies and the institutions, which provide land to entrepreneurs. This results in delay and the ultimate sufferer is the entrepreneur.

There is lack of awareness among the entrepreneurs of the new machinery and technology, which have come in other

regions. There is no Research and Development facilities in the SSI units and this retards the growth and innovation among the entrepreneurs.

Though it should have been a routine affair for the District Industry Centre (DIC) officials and bank officials to inspect the working of SSI units. But they hardly visit the concerned SSI units to check whether they are working properly or not. So these are some of the problems, which influence the growth of SSIs of the District.

A number of banks and other institutions were set up by the Government of India for the financial assistance to the small scale and cottage industries. The Non-Bank Statutory Financial Organization (NBSFOs) or development banks are playing a very important role in the development of these small scale and cottage industries. At present there are about 35 such institutions, which include IDBI, IFCI, NABARD, Lead Bank, SIDC, SIDO, SIDBI and so on. They provide wide range of fund based and non-fund based assistance to industries.

Lead bank also coordinates the activities of agencies, which provide finance to small-scale industries, Lead Bank also has announced various schemes like 'Single Window Services', Inland letter of credit scheme, composite loan scheme etc for the development of small enterprises.

In the northern zone, Lead Bank has opened its branch office at Aligarh (U.P.). Lead Bank offers various projects and schemes for the development of SSIs in Aligarh District. Lead Bank also helps in the modernisation and technology upgradation of existing ones. In Aligarh several small-scale

units are operating by using obsolete technology. Then productivity and profitability may be raised through modernisation & upgradation of technology. It helps in expansion of well-run units, diversification of these units for enhancing their competitiveness. Marketing is another area where the small-scale units of Aligarh need special attention. This would increase their profitability.

Lead bank has evolved itself to meet the various requirements of SSIs of Aligarh district by offering various financial products & resource like term loan assistance, working capital term loan, support organs delayed payment, foreign currency loan, and also by micro credit and indirect financial assistance.

Lead Bank also introduced several schemes, for the development of SSIs like SVCL, JMERA etc. A large number of SSIs of Aligarh district may be benefited through these financial operations of Lead Bank.

So the study proves the hypothesis that finance act as a major constraint in the growth of small-scale industries in Aligarh District.

6.2. Recommendations:

The study makes the following recommendations having policy implications:

1. The Lead Banks, banks and financial institutions should provide both the working capital and term loans, without delay to the SSIs.
2. In sanctioning of the quantum of credit facilities, there is a tendency to cut down the limits on an adhoc basis

on the plea that the units will require the full credit limit only when it goes into full production. There are often delays subsequently for enhancing limits and the operations of the units suffer. The full working capital should therefore be sanctioned at the outset obviating the necessity for reference to sanctioning authority subsequently.

3. Financial guarantee to a reasonable extent may be given to small entrepreneurs to enable them to secure contracts for supply of goods and to carry out the work undertaken.
4. There must be accountability on the parts of District Industries Centre (DIC) and bank officials and the special tribunal should be established so that stringent action can be taken against the erring officials. There should be greater coordination between Lead Bank and DIC.
5. Lead Bank should follow uniform policy of providing need-based finance to small units.
6. It is suggested that before providing finance for any project the Lead Bank should have a close look at the top management as well as the complete organizational set up.
7. Besides Lead Bank all the institutions & organizations, which are related with the working of SSIs, should set up a separate department of customer care for the benefit of entrepreneurs.
8. It is suggested that the Government should ensure in

coordination with Lead Bank that all the facilities related to finance, marketing etc. needed by SSIs should be made available at one place so that entrepreneurs do not have to go to different parts of the city for a single work. This will save a lot of time and delay on the part of entrepreneurs.

9. Lead Bank should provide project reports to the prospective entrepreneurs easily and at affordable cost.
10. The Lead Bank in cooperation with banks and financial institutions should conduct specialized training programmes and seminars not only for their staff but also for the borrowers to bring about better understanding and coordination between them.
11. Banks and financial institutions should also take steps to bring about an attitudinal change in their officers and other functionaries dealing with the industrial units so that they adopt helpful attitude from pre-sanction stage and are able to win the confidence of their borrowers.
12. The procedure of taking loans from Lead Banks, banks and financial institutions should be simplified and more powers should be delegated to the branch manager so that unnecessary delays may be avoided.
13. The Government should be promoting the SSI units to develop Research and Development (R&D) facilities and concession should be given to those units, which have R & D facilities.
14. Efforts should be made by the Government in

coordination with Lead Bank to revive the sick units in the Industrial Estates and Industrial Areas.

15. Lead Bank and other banks should go beyond the purview of lending and recovery. They should try to act as a friend, philosopher and guide to small scale Industries.
16. The Government should take full advantage of the establishment of Lead Bank's office at Aligarh and provide all the necessary assistance to it in carrying out its operations successfully in Aligarh. Since, the efforts of the Government towards the development of Aligarh as an industrial hub of western U.P. have not been successful and the desired degree of success has eluded us. It is all the more important to involve agencies like Lead Bank and assign them an increasingly greater role in the industrial development of Aligarh District.

6.3. General Suggestions to streamline the working of Canara Bank:

No doubt Canara Bank is working very well in the district but to further streamline the working of Canara Bank and to enable it to render better services to its customers, the following suggestions may be given¹:

1. The Bank should remove all constraints and ensure prompt collection of cheques which will enable it to maintain larger balances in current and saving account. At the same time, the complaints and grievances of the customers should be removed as early as possible so as to keep them attracted towards the

¹ Varshneya, Y.K., Op. Cit., p. 284

banks.

2. Vigorous deposit campaigns should be launched and extension counters should be opened at various centres. Incentives like higher commission should be given to those who attract larger deposits towards the banks. Gift articles like calendars, diaries, fountain pens, etc, should be liberally distributed among the customers.
3. With a view to secure fullest cooperation of the staff, it is necessary that the grievances of the staff should be removed expeditiously and a sense of involvement may be created among them by inviting their opinions and suggestions on several matters from time to time.
4. For ensuring internal control, a register should be maintained, listing out the irregularities and responsibilities that are fixed and all the departmental heads should be checked from time to time.
5. The Bank should so conduct its operations that they are in alignment with the national policies and objectives for increasing production diffusion of economic power, reduction of the irregularities, removal of poverty etc.
6. Banks should consider all application for credit facilities on merit, precautions should be taken that such facilities are not extended to an unworthy customer and they are not denied, under any circumstances to a worthy customers for production purposes and viable schemes/ units.

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QUESTIONNAIRE TO SSI UNITS / ENTREPRENEURS

I. General Information

1. Name :
2. Location :
3. Is your concern registered with the
Directorate of Industries
4. Year of establishment :
5. Type of legal organization :
 - (i) Individual proprietorship
 - (ii) Partnership (Joint family)
 - (iii) Partnership (other)
 - (iv) Public Limited Company
 - (v) Private Limited Company
 - (vi) Co-operative Society
 - (vii) Any other (Specify)
6. Date of commencement of business :
7. Investment in plant and machinery:
8. Chief Executive of the Unit : Proprietor/General
Manager/ Managing
Director / Other.
9. Number of Employees :
(including office staff)
10. Line of activity :
11. Buyers of the products of the units : Pvt. Customers/ Govt.
Deptt/ (Tick at the respective places) Intermediary
manufacturing unit/
others.
12. Units of electric power consumed :
during a month

II. Profile of the Chief Executive

1. Educational Qualification : Matriculation /Higher
Secondary/ Graduation / Post graduation /
Technical
2. Training obtained (if any) :
 - (a) Name of the Training Centre :
 - (b) Duration of the training :
 - (c) Organised by :
3. Experience in the line of activity : _____
years
4. Family background (of entrepreneurs) [Tick the relevant areas]
 - (i) Comes from educated family : _____
 - (ii) Comes from business family : _____
 - (iii) Comes from poor family : _____
 - (iv) Belongs to Gen./SC/ST/OBC : _____
5. Why you have chosen this carrier : [Tick the respective places] (i)
 - (i) No other alternative : _____
 - (ii) Family pressure : _____
 - (iii) For Govt. Assistance : _____
 - (iv) Interested in this line of activity : _____

 - (v) Preference to have an independent life _____
6. Do you have interest in any other business: Yes / No

III. Long Term Capital Investment

1. State the total investment (Tick the selected group):

Less than	-	Rs. 1.00 lakh	(_____)
Rs. 1 lakh	-	Rs.2.00 lakh	(_____)
Rs. 2 lakh	-	Rs 4.00 lakh	(_____)
Rs. 4 lakh	-	Rs.6.00 lakh	(_____)
Rs. 6 lakh	-	Rs. 10.00 lakh	(_____)
Rs. 10 lakh	-	Rs. 15.00 lakh	(_____)
Rs. 15 lakh	-	Rs.20.00 lakh	(_____)
Rs.20 lakh	-	and above	(_____)
2. State the fixed capital _____
Percentage in total investment _____
3. Give the name of the financial institutions from which you have borrowed your term loan.

(I)	(II)
(III)	(IV)
4. State your experience in obtaining term finance from various institutions (State Yes / No)

(i) Too cumbersome	Yes/No
(ii) Too many legal formalities	Yes/No
(iii) Private payment to officials & non-officials	Yes/No
(iv) Delay	Yes/No
(v) Inadequate finance	Yes/No
(vi) Penal interest are heavy	Yes/No
(vii) Suppliers linked loan	Yes/No
(viii) No problem	Yes/No
5. What are the problems relating to construction of sheds/procurement of plant and machinery?

IV. Short Term Finance

1. State the working capital _____
Percentage of working capital in total investment _____
2. Give the name of the financial institution, which you have approached for your working capital requirements.
(I) _____ (II) _____
(III) _____ (IV) _____
3. Amount of bank loan obtained from these institutions. [Tick the selected group]
Rs. Less than - Rs. 1 lakh (_____)
Rs. 1 lakh - Rs.2 lakh (_____)
Rs. 2 lakh - Rs.4 lakh (_____)
Rs.4 lakh - Rs.6 lakh (_____)
Rs.6 lakh - Rs.10 lakh (_____)
Rs.10 lakh - Rs. 15 lakh (_____)
Rs. 15 lakh - Rs.20 lakh (_____)
Rs.20 lakh - above (_____)
4. What type of credit facility or facilities you have obtained from commercial banks for working capital requirements. [Tick the selected group].
(i) Cash credit - hypothecation (_____)
(ii) Cash credit - Mundy type (_____)
(iii) Cash credit - Lock & Key type (_____)
(iv) Cash credit - Factory (_____)
(v) Cash credit - Document bills (_____)
(vi) Cash credit - Clean bills (_____)
(vii) Cash credit - Demand bills (_____)
(viii) Cash credit - Usance bill (_____)
(ix) Overdraft - (_____)
(x) Discounting of bills (_____)

5. State the problems encountered in getting short-term finance from commercial banks

(i) Cumbersome - Yes / No

(ii) Repeated requests are to be made - Yes / No

(iii) Too many formalities - Yes / No

(iv) Unaccounted expenses in entertaining of officials / Non-officials - Yes / No

(v) Inadequate funds - Yes / No

(vi) Periodical statements are strictly insisted - Yes / No

(vii) No problem - Yes / No

6. Have you made regular repayment - Yes / No

If no, state the constraints you encountered in servicing the debt.

(i) Shortage of production _____

(ii) Inability to sell the product _____

(iii) Non-receipt sale proceeds from the Customers _____

(iv) Excessive cost incurred in production _____

7. Proportion of loan borrowed and loan repaid: [Tick the selected group]

Borrowed		Repaid	
Less than	- Rs.1 lakh	Less than	- Rs. 1 lakh
Rs. 1 lakh	- Rs.2 lakh	Rs. 1 lakh	- Rs.2 lakh
Rs.2 lakh	- Rs. 4 lakh	Rs. 2 lakh	- Rs. 4 lakh
Rs. 4 lakh	- Rs. 6 lakh	Rs. 4 lakh	- Rs. 6 lakh
Rs. 6 lakh	- Rs. 10 lakh	Rs. 6 lakh	- Rs. 10 lakh
Rs. 10 lakh	- Rs. 15 lakh	Rs.10 lakh	- Rs.15 lakh
Rs. 15 lakh	- Rs. 20 lakh	Rs. 15 lakh	- Rs. 20 lakh
Rs. 20 lakh	- above	Rs. 20 lakh	- above